

# BayernLB 2014 Sustainability Report

*Responsibility. Sustainability. Future*





## Responsible company, since 1884.

A wealth of social issues such as climate change, globalisation, the transformation of the energy system and legal and regulatory changes continue to pose major challenges to the real economy and in particular the financial sector. To overcome these challenges, it is often necessary to adjust corporate strategy and the business focus. In facing today's issues, the main question arising is what role a company's corporate social responsibility can and should play in business decisions.

For BayernLB the answer to that question is clear: Ongoing economic success is closely linked to corporate management's commitment to sustainability. BayernLB and its predecessors – whose achievements include supporting Bavaria in becoming a modern industrial state – have worked on this principle since 1884.

In our opinion, assuming corporate social responsibility by taking account of ecological, social and society issues must therefore remain an integral part of the business model and a key element of future strategic considerations. This is because the expectations of strategically important stakeholders such as customers, investors and employees, with regard to companies' sustainability performance, are steadily increasing, along with the underlying social challenges. We want to meet these expectations. In doing so, we are not acting purely from altruistic motives, we are following a strategic business approach. Because this approach has a tradition stretching back 130 years at BayernLB. The following report presents our latest sustainability activities and management approaches. We demonstrate what we have achieved and where we were successful in the past. We also point out where we see room for improvement and how we intend to continually improve our sustainability performance even further.

# BayernLB – Environmental Data

See the chapter *Environmental protection at BayernLB* for more data.

	2013	2012	2011
<b>Energy</b> (in MWh)	<b>28,693</b>	<b>26,991</b>	<b>28,023</b>
Of which			
• electricity	14,047	13,390	14,210
• heating	14,646	13,601	13,813
<b>Paper</b> (in tonnes)	<b>164.5</b>	<b>195.2</b>	<b>219.3</b>
Of which			
• recycled paper	123.5	135.5	65.6
• ECF/TCF paper	41.0	59.7	153.7
<b>Water</b> (in m <sup>3</sup> )	<b>50,829</b>	<b>57,270</b>	<b>56,038</b>
Of which			
• rainwater	8,875	7,932	7,292
• ground and surface water	14,435	19,164	17,492
• drinking water	27,519	30,174	31,254
In tonnes	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Refuse/food waste</b>	<b>986.66</b>	<b>877.60</b>	<b>778.80</b>
Of which			
• for recovery/recycling	447.6	474.5	479.2
• for incineration	371.2	263.2	163.9
• for landfill	51.4	39.9	32.4
• hazardous waste	116.5	100.0	103.3
In km	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Business travel</b>	<b>16,265,156</b>	<b>17,659,502</b>	<b>18,007,717</b>
Of which			
• by road	6,076,408	6,597,089	5,164,053
• by rail	1,737,548	1,887,197	3,242,029
• by air	8,451,200	9,175,216	9,601,634
In tonnes	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Greenhouse gas emissions</b>			
Absolute greenhouse gas emissions	6,361	6,387	4,845

# BayernLB – Social Data

(See the chapter *Human resources* for more social data.)

	2013	2012	2011
<b>Year-end total headcount at BayernLB (excluding LBS Bayern) in Germany and abroad</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
Of which in Germany	3,137	3,143	3,092
• of which German	3,012	3,019	2,977
• of which not German	125	124	115
Of which abroad	255	292	320
• of which German	36	42	48
• of which not German	219	250	272
Of which BayernLB excluding BayernLabo	3,161	3,200	3,179
Of which BayernLabo	231	235	233
Of which Germany	3,137	3,143	3,092
Of which Europe excluding Germany	143	163	173
Of which America	112	130	148
Of which male	1,814	1,836	1,833
Of which female	1,578	1,599	1,579
Of which full-time employees	2,720	2,800	2,812
• of which male	1,743	1,773	1,782
• of which female	977	1,027	1,030
Of which part-time employees	672	635	600
• of which male	71	63	51
• of which female	601	572	549
Of which with a permanent contract of employment	3,275	3,322	3,338
• of which male	1,754	1,776	1,794
• of which female	1,521	1,546	1,544
Of which with a fixed-term contract of employment	117	113	74
• of which male	60	60	39
• of which female	57	53	35
Of which with management responsibilities	312	318	329
• of which male	254	263	268
• of which female	58	55	61
Of which without management responsibilities	3,080	3,117	3,083
• of which male	1,560	1,573	1,565
• of which female	1,520	1,544	1,518
Of which junior employees	131	135	124
• of which banking apprentices	34	31	36
• of which students on a part-time course at a vocational academy	60	60	47
• of which graduate trainees	37	44	41
Of which covered by environmental management under EMAS	3,155	3,105	3,069
<b>Average age (in years)</b>	<b>42.5</b>	<b>42.0</b>	<b>41.7</b>
<b>Average length of service in the Bank (in years)</b>	<b>13.9</b>	<b>13.0</b>	<b>12.8</b>



# Contents

- 8 Company profile
- 10 Parameters of the 2014 sustainability report
- 12 Foreword
- 14 Sustainability management
- 30 Integrity
- 42 Dialogue with stakeholders
- 52 Corporate citizenship
- 62 Human resources
- 86 Environmental protection at BayernLB
- 98 Sustainable financial solutions

# Company profile

The Bank is legally an “institution established under public law”. It is owned – indirectly via BayernLB Holding AG – by the Free State of Bavaria and the Association of Bavarian Savings Banks, which have respective holdings of around 75 percent and around 25 percent. BayernLB is one of the leading commercial banks for large and Mittelstand customers in Germany and a strong, regionally focused corporate and real estate lender with a balanced risk profile. As a member of the Savings Banks Finance Group, BayernLB is a close partner of the savings banks in Bavaria, providing them with a wide range of products. It also acts as a central bank to the Association. Retail customers are mainly served by BayernLB’s Deutsche Kreditbank AG (DKB) subsidiary. The key business areas are:

- **Large German and selected international companies with a German connection**

BayernLB prides itself on its successful and long-term relationships with large German and international customers. On the domestic front, these include DAX, MDAX and family-owned companies with annual sales of at least EUR 1 billion which operate from their home market in Germany. International companies with a significant connection to Germany are likewise served. The Bank’s core competencies are traditional credit financing such as working capital, capex and trade financing. And when its customers do business abroad, they count on BayernLB’s recognised expertise for all their needs, be it currency and interest rate hedging, traditional trade finance, project and export finance, etc.

- **Middle-market (Mittelstand) companies**

BayernLB is the bank for German Mittelstand companies, especially in the economic powerhouses of Bavaria and North Rhine-Westphalia. Thanks to the high quality of its products and advisory services, good personal business relationships and years of experience, it has established a profile as a reliable partner to these customers. With its extensive know-how, BayernLB helps Mittelstand companies export to new markets – every step of the way. BayernLB is also extremely well positioned in the subsidised loan market.

- **Savings banks**

For BayernLB, the savings banks are both important customers and sales partners and thus form one of the key pillars of its business model. They are also long-standing and reliable co-owners of BayernLB. BayernLB and the Bavarian savings banks are linked together in a preferred partnership. The BayernLB Group acts a central service provider for the savings banks, supplying them with tailored products and services for both their own business and their end customers, to include payment services, assistance in securities, investment and cross-border transactions, syndicated and subsidised loans, and foreign notes and precious metals activities.

- **Real estate**

BayernLB's real estate business provides services and long-term financing for commercial real estate. In regional terms, the Real Estate division's focus is on Germany and selectively serving German customers doing business abroad. Rounding out these target customers are international companies with a connection to Germany. In the commercial real estate area, products include financing for real estate assets and portfolios, project developments and housing developers. In the area of managed real estate, the Bank provides financing concepts primarily for hotels, logistics centres, hospitals, clinics and care homes.

- **Public sector**

In its public-sector business, BayernLB focuses particularly on expanding its market share in its home market of Bavaria and intensifying sales in close partnership with the Bavarian savings banks. It provides a wide range of customised financing and investment solutions to governments, local authorities and public institutions. BayernLB stands out in this segment thanks to its long-standing experience and its expertise in public-private partnership projects and the renewable energy sector.

# Parameters of the 2014 sustainability report

With the 2014 sustainability report, BayernLB continues the comprehensive reporting on its sustainability performance, which it began with its 2007 sustainability report. Although, as previously, the Bank follows a biennial reporting cycle, this, however, cannot fully meet the demands of the dynamic environment and the requirement to inform interested stakeholders promptly about current developments. To satisfy these demands, BayernLB provides additional information as clearly as possible to all the interested parties at [www.bayernlb.de/sustainabilitymanagement](http://www.bayernlb.de/sustainabilitymanagement), including changes in content sorted both by individual topics and chronologically. This includes, for example, the annual environment statement as well as notes on current developments (CSR releases). The successive expansion of BayernLB's sustainability performance is thus made transparent and comprehensible at all times.

This fourth sustainability report was drawn up using the internationally recognised Global Reporting Initiative (GRI) sustainability reporting guidelines (GRI Guidelines, Version 3.0). The selection and, in particular, the weighting of the issues was based on demands of the stakeholders which are especially relevant to the Bank's business success. Against this background, it is explained in detail how BayernLB fulfils its obligations vis-à-vis its employees. Because dealing responsibly with employees' interests is of utmost importance for business success. Another key stakeholder group is certainly customers. Therefore the chapter *Sustainable financial solutions* illustrates the range of services with which BayernLB intends to meet its customers' needs and make a contribution to a sustainable society. Long-term success depends to a great extent on the confidence that our owners, customers and the public have in BayernLB's integrity and reliability. This confidence took a hit from the financial markets crisis, the controversy surrounding former managers of BayernLB and the HGAA debacle. In the chapter *Integrity*, BayernLB therefore presents in detail how it satisfies the requirement to act legally, ethically and responsibly, thereby also ensuring it is regarded as a moral and reliable partner.

Unless indicated otherwise, the content of this report generally refers to BayernLB and its legally dependent institution BayernLabo. However, individual activities or products of subsidiaries such as DKB and BayernInvest Kapitalanlagegesellschaft mbH (BayernInvest KAG) are referred to in some cases where they round out or supplement BayernLB's range of products and services. By contrast, the other details, predominantly the chapters entitled *Integrity*, *Human resources* and *Environmental protection at BayernLB*, refer almost exclusively to BayernLB.

LBS Bayern left BayernLB as at 31 December 2012. In order to improve comparability, LBS Bayern was removed from all data. As a result, the 2011 figures have been altered in many cases, as three years ago LBS Bayern was included in the environmental and social data.

The sustainability report in the form presented here has not been externally verified. Nevertheless, key content and figures have been checked externally in other places. For example, all the major social data were taken from the separate and consolidated financial statements, which are subject to auditing by external auditors. In addition, all environmental data and key environmental processes were reviewed by an external expert as part of certification of the environmental management system under the European Eco-Management and Audit Scheme (EMAS) Regulation and the international environmental management standard ISO 14001. The environmental data validated by the environmental certification organisation Intechnica Cert GmbH are gathered for the head office in Munich and the Dornach and Nuremberg offices, therefore covering over 90 percent of the Bank's employees. They provide the basis for calculating the greenhouse gas emissions caused by operations. These calculations are based on the data system of the Association for Environmental Management and Sustainability at Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten, VfU). This ensures there is a solid methodological foundation for these figures too.

In enhancing its sustainability approach, BayernLB takes into account the interests of all strategic stakeholders – from its owners to employees, customers and investors. This requires constructive dialogue. The 2014 sustainability report should provide a basis for an intensive exchange of views on sustainability-related topics and strengthen confidence in BayernLB as a responsible, moral and forward-looking bank. Contacts who are available to answer questions and discuss sustainability-related issues are named at the end of this report.

# Foreword

*Ladies and Gentlemen, dear customers,*

Whenever the topic of banks' reputation in society comes up, we talk about the deep-seated loss of trust that our sector faces. Although it has been seven years since the financial market crisis erupted, the banking industry has not gained any ground since in the matter of restoring its reputation. Quite the contrary: The more often banks claim they have learned from the mistakes of the past, the more it seems to feed people's mistrust.

## So, what can we do?

I am convinced of this: We will not regain people's trust with lofty words, but by acting in a trustworthy and responsible manner. Therefore the best thing we can do is to go to our desks in the Bank every day and concentrate on our core task: to provide a service to our customers in good faith, without losing sight of our obligations to our owners and our social responsibility.

With this sustainability report, we want to build on the information in the annual report and give an insight into how we endeavour to meet this challenge. Like every other bank, we sometimes come up against our limits. We have close relationships with numerous stakeholders, who have very different and more often than not conflicting expectations of us. It is therefore critical for us to maintain a lively dialogue with all of them in order to openly discuss potential conflicts of interest and then resolve them fairly.



*Dr Johannes-Jörg Riegler, CEO*

In addition, we consider corporate citizenship, also detailed in this report, part of the sustainability issue. Our commitment to the regions in which we conduct activities takes many forms, whether it be social projects or support for education, science or culture.

The basic prerequisite for this is our financial success. A bank without a functioning business model, without successful and profitable customer business, without disciplined risk and cost management, can fulfil neither its sustainability nor its corporate social responsibility obligations. In this context, all employees work with the utmost dedication to drive BayernLB forward to a successful future, so that it can fulfil its responsibilities in and for society for a long time to come.

Sincerely,  
The Board of Management

A handwritten signature in blue ink, consisting of a stylized 'R' and 'J' followed by a horizontal line.

*Dr Johannes-Jörg Riegler, CEO*



# Sustainability management

We are committed to the sustainable development of society. We acknowledge our responsibility by taking ecological, economic and social issues into consideration along the entire value chain.



*Code of Conduct*

# Sustainability management

Improving sustainability on a continual basis requires a structured approach that takes due account of the issue in all its facets and complexity. This is because sustainability management entails not only coordinating operations among virtually all divisions but, above all, striking a balance between the sometimes conflicting interests and expectations of very different stakeholders.

For BayernLB, ongoing economic success is linked to corporate management's commitment to sustainability. The Bank assumes corporate social responsibility by taking environmental, social and society issues into account in its business model and in strategic business considerations. It mainly takes its lead from global and societal megatrends such as demographic change, scarcity of resources, climate change and globalisation. The sustainability management approach is based initially on long-established corporate facilities and environmental protection management.

## Facilities management forms the basis of the environmental management system

The seeds of corporate environmental protection were sown back in the 1970s at BayernLB. When the Bank moved into its headquarters at Brienner Strasse 18, this building – which was one of Munich's most technically advanced buildings at the time – set new standards in energy and resource efficiency. For example, condensate from the heating system was used to heat tap water even back then. In addition, since then water has been drawn from the Bank's own well rather than the public water supply to sprinkle onto green spaces, supply fountains and feed the building's maintenance systems. Other highly effective, innovative and environmentally friendly technologies were also used, such as heat recyclers or the use only of traps funnelling cold air from the outside to cool equipment and systems during the winter months.

In the 1990s, environmental aspects were taken into account in the complete restructuring of Brienner Strasse 20, the second-largest company building, when dismantling the old building materials. A major cornerstone was the photovoltaic facility, which, still active today, not only serves to generate electricity, but is also used in place of other building components. In addition, ceilings with integrated cooling systems are used instead of full air conditioning. And as an alternative to erecting more buildings on the premises, a green courtyard was cultivated. Greywater was introduced – a novelty at the time – for flushing the toilets.

This advanced, ecological facilities management was and still is the foundation of our corporate environmental management, which has been continually expanded during the past few decades in the form of ongoing modernisation measures at the Bank's business premises. For example, the first full-time position for an environmental protection officer was created in 1993. In the following year, this employee saw that comprehensive environmental guidelines were established. These guidelines formed the parameters for ecological awareness in carrying out the Bank's day-to-day business operations. The first environmental performance assessment was published that same year. The obligation to comply with these guidelines was strengthened in 1995, when the Bank signed the UNEP FI declaration (United Nations Environmental Program Finance Initiative),

a voluntary commitment at UN level to integrate environmental protection into banking. In 1998, the Group-wide environmental policy, which was based on the environmental guidelines and still applies today, was approved by the Board of Management. Since then, it has formed the basis for all measures to improve environmental performance.

Environmental protection as something we owe to ourselves and future generations: BayernLB thus committed itself to this principle back in the early 1990s. With hindsight, it is evident once again that a commitment to environmental protection and financially-oriented corporate management are not mutually exclusive. In fact, handling natural resources in a responsible manner offers substantial potential for saving money.

### Certified environmental management system as the basis for climate protection

We have been implementing our green policy in a coordinated manner through a structured management system accredited under the European Eco-Management and Audit Scheme (EMAS) Regulation since 1999 and certified since 2011 under the international environmental management standard ISO 14001. The externally validated management system, which until 2010 only covered the Munich headquarters, was expanded in 2011 to include Dornach and Nuremberg. The Bank's participation in EMAS III and the re-accreditation of its environmental management system are testimony to the high value it rightfully places on environmental protection. BayernLB thus pledges to uphold this commitment in the upcoming years as well and to continually improve its internal processes.

This is because combating the negative effects of anthropogenic (man-made) climate change is considered one of the greatest challenges of the 21st century. By establishing flexible mechanisms in the Kyoto Protocol – these being emissions trading, the clean development mechanism (CDM) and joint implementation (JI) – the United Nations has enabled countries to reduce greenhouse gas emissions in a cost-effective manner. BayernLB regards the agreements in the Kyoto Protocol as a political consensus and considers the mechanisms to be sensible from an environmental-economic point of view. It helps its customers meet the obligations of the European emissions trading system and, by offering trading in emissions certificates, provides an instrument for risk hedging; however, the Bank also uses Kyoto mechanisms itself by offsetting unavoidable emissions.

The primary goal of environmental protection at BayernLB is thus to reduce direct and indirect greenhouse gas emissions, thereby minimising the environmental footprint. Defining specific individual targets and the appropriate environmental and climate protection measures to achieve them requires systematic action. Emissions are therefore analysed every year to determine the greenhouse gas output from business operations. These analyses cover the energy consumption of buildings; water and paper consumption; and the volume of waste and business travel. Calculations of greenhouse gas emissions are based on the data system used by the Association for Environmental Management and Sustainability at Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten, abbreviated as VfU). The VfU indicators make reference to international standards of environmental and climate protection reporting, such as the Greenhouse Gas Protocol (GHG), and have established themselves as the internationally recognised industry standard for reporting emissions figures.

The findings are used to create a comprehensive climate protection strategy, which has been successfully implemented for many years. Since 2008, the Bank has been climate-neutral at its Munich offices as defined in the data system of the VfU; Dornach and Nuremberg sites have enjoyed this distinction since 2010. Expanding the scope of consolidation of the certified environmental management system step by step will provide a robust data basis for increasingly comprehensive recording of emissions and thus also create the opportunity of being climate-neutral at as many of the Bank's locations as possible within Germany by 2015.

### **Sustainability management integrates corporate environmental protection with product-based approaches and additional aspects along the entire value chain**

BayernLB is convinced that ongoing economic success is closely linked to corporate management's commitment to sustainability. In BayernLB's opinion, assuming corporate social responsibility by taking account of ecological, social and society issues must be an integral part of the business model and a key element of future strategic considerations. The sustainability policy and Code of Conduct act as a foundation for this.

Improving sustainability on a continual basis requires a structured approach that takes due account of the issue in all its facets and complexity. This is because sustainability management entails not only coordinating operations among virtually all divisions but, above all, striking a balance between the sometimes conflicting interests and expectations of very different stakeholders. The expectations of strategically important stakeholders such as customers, investors and employees are, at least in terms of companies' sustainability performance, steadily increasing. BayernLB wants to satisfy these expectations as well as possible.

In doing so, BayernLB is not acting purely from altruistic or philanthropic motives, we are following a strategic business approach. This approach has a long tradition at BayernLB. For BayernLB, taking on corporate social responsibility means concentrating on its actual role as a financial intermediary. This function establishes the prerequisites for our economic system to work. Throughout its long history, BayernLB has played a major role in building up this system by supporting local infrastructure, industry and modern technology.

Since establishing environmental and climate protection within BayernLB, the Bank also fulfils its other corporate social responsibility while performing its service function. To this end, BayernLB has continually improved its sustainability performance in particular since the end of the 1990s and has taken into account ever-stricter ecological and social aspects when conducting its business activities. The focus of these activities is predominantly on the product side.

BayernLB's sustainability management takes the following approach:

- Analysis: Taking into account events impacting sustainability (climate change, shortage of resources and demographic change, etc.) as general economic conditions
- Definition: Defining the business relevance of these "special" economic conditions (stakeholder approach)
- Application: Integrating the business-relevant sustainability aspects into the Bank's business

### Sustainability management as a contribution to managing ESG-related social challenges

Global megatrends such as climate change, shortage of resources and demographic change pose great challenges for BayernLB, its customers and society as a whole. BayernLB is doing its part to rise to these challenges and continually takes a stance on important issues. The approaches are manifold. Treating employees responsibly is one of the most important requirements for BayernLB's business success. But consistently implementing the comprehensive climate protection strategy, dealing consciously with the ecological, social, and society-related impact of our business activities and fulfilling the needs of ethical investors will also remain key pillars of BayernLB's business model in future.

While banks' focus in the early days of sustainability management was on becoming greener, taking account of ESG issues on the product side has become increasingly important over the years. This is evident at international level, for example, in the definition and implementation of environmental and social standards (Equator Principles) in project finance. It initially sufficed for banks to implement these standards, since banks had received a lot of bad press, particularly as a result of financing critical projects.

Nowadays, various stakeholders such as rating agencies and NGOs increasingly insist that ESG issues are taken into account in all financial transactions, that banks develop specific guidelines for particularly critical subjects/sectors and that they agree to comply with these guidelines. Therefore it is no longer nearly enough to simply take into account environmental and social aspects in project finance (particularly with regard to consistent risk strategies).

The following issues are currently the subject of particularly critical discussion and will probably continue to be in future:

- Climate change and environmental destruction
- Violation of human dignity and rights
- Nuclear power, controversial forms of power generation
- Controversial weapons (NBC weapons, anti-personnel mines and cluster munition)

Banks are especially subject to public criticism for business activities that contravene the basic ESG principles or which are related to the issues mentioned above. This criticism has increased in both volume and quality. Exposure to ESG-critical issues/transactions and the related criticism can result not only in reputational risks but also in direct, business-related risks. The greatest of these are a downgrading of the bank's sustainability ratings and/or the withdrawal of investments by institutional investors that have incorporated ESG issues into their investment strategy.

For a long time, criticism by NGOs or other stakeholders has referred especially to the basic exposure to particularly critical sectors/issues (e.g. weapons transactions, oil & gas, nuclear) – regardless of specific individual transactions. Individual banks have therefore begun taking a general stance on such issues. The public is demanding a clear commitment to sector-specific and overarching guidelines. However, the complex interplay between ecological, social and economic performance sometimes makes it difficult to spot at first glance what is sustainable and what is not. That sounds inconvenient. But it is necessary to face this “inconvenient truth” in a differentiated and serious manner.

BayernLB presents its Group-wide standards in the chapter entitled *Sustainable financial solutions*.

## Structure and goals of the sustainability management system

Management of sustainability-related topics is the responsibility of the Group Strategy & Group Communication division, which reports directly to the CEO. Within the division, sustainability management forms an explicit focus of the Corporate Development & Sustainability Management department. Locating sustainability organisationally in this department ensures that business strategy and sustainability-related issues are treated in an integrated manner. Incorporating sustainability-related aspects into the Bank's strategic focus makes the issue of sustainability an important component of BayernLB's business model – as in this way it is possible to leverage the business potential associated with sustainability in the best possible manner and minimise risks.

The cornerstone of this is the Group-wide sustainability policy. It forms the basis for continually improving sustainability performance. It is supplemented by internal guidelines and external commitments. The major areas of activity are environmental protection within BayernLB, climate protection and sustainable financial solutions. BayernLB participates in selected forums, such as the German Association for Environmental Management and Sustainability at Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V., VfU) or UNEP FI, where it discusses the topic of sustainability management with other banks.

In successively expanding its sustainability performance, BayernLB fulfils its public mandate and makes a major contribution to a sustainable society. However, this contribution can only be sustainable if firstly environmental and social aspects are taken into account in business decisions and secondly these decisions result in financial success. The issue of sustainability will therefore only have long-term prospects in a corporate context if incorporating sustainability-related aspects into the strategy makes a positive contribution to the value of the company. Sustainability management, in close collaboration with all relevant Group units, thus already makes a major contribution to business success at BayernLB. This contribution is especially evident with regard to

- Evaluating and managing ESG (environmental, social, governance)-related societal challenges to minimise environmental, social and reputational risks and establishing ESG-related issue management
- Strengthening the funding base by placing issues which meet the requirements of investors on the market for socially responsible investments (SRI) (based on scores in sustainability ratings)
- Increasing income by developing and supporting market activities in sustainability-related areas.

With this strategy, sustainability management will become an even more important part of the business model in the future, will support the Bank's restructuring and ensure environmental, social and ethical issues are dealt with responsibly.

## Sustainability strategy

In order to ensure sustainability-related issues are efficiently and effectively managed, the areas for which goals and respective individual measures are to be developed must be prioritised. To this end, BayernLB has established the following criteria in particular:

- Materiality of the impact on creating a sustainable society
- Business relevance in terms of funding, earnings and risk
- Expectations of strategically important stakeholders (primarily owners, investors, customers, employees)

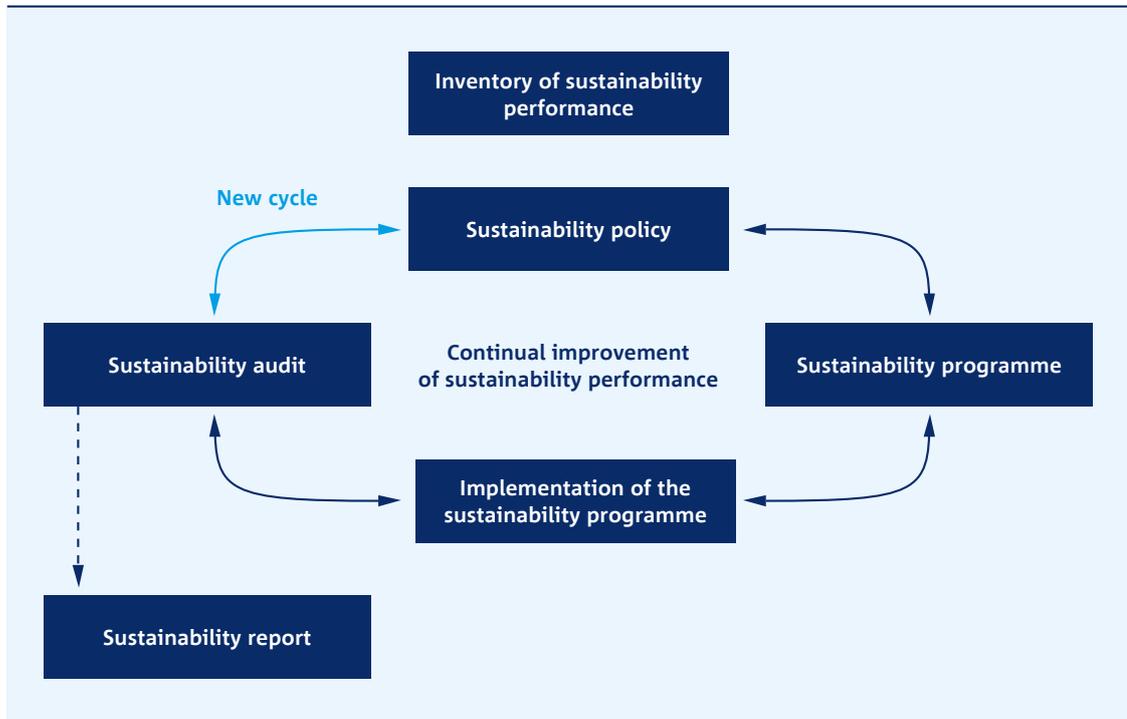
Against this backdrop, the sustainability-related activities will continue to focus on the product side, i.e. referring to the indirect impact of the banking industry on people and the environment. The impact of banks on the (social) environment is without a doubt determined predominantly by their market activities. In addition, designing financial solutions in accordance with sustainability aspects has a direct impact on BayernLB's business success.

In line with this prioritisation, sustainability management in the reporting period focused on supporting a Group-wide initiative relating to the transition to tomorrow's energy, pushing forward with implementing ESG criteria in the core business and formulating clear guidelines and positions on key issues. In addition to considering environmental and social aspects on the product side, the comprehensive sustainability strategy still also includes, of course, implementing other sustainability-related activities, in order to do justice to the diversity of the issue of sustainability.

Managing the expectations of all stakeholders at BayernLB plays a key role in dealing with sustainability-related issues, as the Bank's success is also based on the confidence that stakeholders place in BayernLB. In this context, however, managing the interests and expectations of stakeholders does not mean that the expectations of all the stakeholders on sustainability-related issues must be met in full – which is often impossible due to conflicting interests. It is much more a case of knowing the stakeholders' interests, taking them into account as far as possible and increasing understanding for one another through joint discussions. Mutual understanding is the basis for constructive dialogue, which is essential to achieve the common goal of a sustainable society.

## Embedding sustainability management in standards

The sustainability strategy is implemented as part of a structured management approach, which is intended to ensure continual improvement in sustainability performance.



Comprehensive standards must be taken into account here, which are comprised of legal requirements, internal guidelines and voluntary external commitments. At the heart of these standards is the Code of Conduct, which was introduced in May 2011. The requirements in the Code of Conduct can be regarded as minimum standards, which are supplemented and given more specific form by a range of guidelines. For example, the following topics are regulated by internal guidelines or external voluntary commitments:

- Responsible company management: Corporate governance principles, management principles, corporate principles
- Environmental and climate protection: Sustainability policy, environmental policy, Environmental Pact of Bavaria (Umweltpakt Bayern), UNEP FI declaration
- Equal opportunities for employees: Diversity charter
- Product responsibility: World Bank environmental and social standards, sector-specific guidelines
- Sustainability in purchasing: Sustainability agreement with service providers and suppliers

These standards do not just create clear and binding guidelines for legal, ethical and responsible actions; they form a framework of standards for all sustainability activities, from which goals and individual measures to continually improve sustainability performance are derived. These goals and measures are brought together and documented in the sustainability programme.

### Sustainability programme

The sustainability programme is derived from the stakeholder approach. The predominantly operational measures to continually improve sustainability performance and the implementation status are described in the sustainability report. The measures are derived from the sustainability strategy. The mission of continually improving sustainability performance requires not only the implementation of pre-defined measures, but also the ongoing strategic development of sustainability management.

The sustainability programme is developed based on a comprehensive evaluation of sustainability performance, conducted at least once a year by SM – for example as part of internal auditing. The results of the inventory are discussed with the respective operational managers. This process ensures that the individual measures are implemented in a targeted and consistent manner and are upheld by all business units.

The sustainability programme depicts the milestones towards accomplishing the mission of sustainable performance at BayernLB. It consists of

- Objectives
- Measures
- Deadlines
- Achievement of objectives

The programme is published in the sustainability report every two years.

## Sustainability management and strategy

### Objectives and achievement of objectives in 2012

Objective	Measure	Explanation	Deadline	Achievement
Expand the scope of consolidation of the sustainability management system	Include the Group's strategic subsidiaries and intensify cooperation	As a result of the EU state aid proceedings, BayernLB disposed of several holdings in the reporting period; other measures are being implemented. This facilitates the objective of expanding the scope of consolidation. At the same time, it allows cooperation across the Group to be stepped up. This goal will therefore continue to be pursued.	Gradual	Partially achieved
	Build up a Group-wide knowledge database, as a foundation for further harmonising sustainability activities	The knowledge database was technically assessed and a cost/benefit analysis performed with a negative outcome. Ideas are shared by the usual means of office communication.	12/2013	Rejected after assessment
Certification of management systems	Re-accredit BayernLB's environmental management system under EMAS		Annually	Achieved
	Expand certification of environmental management systems to all locations in Germany and increase coverage in the Group from the current 41 percent to over 75 percent	Data collection was initially expanded and the cost of additional certification examined. Expansion to all German locations is not currently being pursued.	12/2015	Partially achieved
Increase communication with strategic stakeholders	Expand SRI network by signing the UN PRI	BayernInvest's membership of the UN PRI is considered sufficient for the time being.	06/2013	Achieved
	Set up a platform for dialogue with NGOs	The dialogue usually takes place bilaterally on the part of BayernLB. In addition, BayernLB took part in the Bank Dialogue Programme of the German NGO <i>urgewald</i> .	12/2010	Achieved
	Sign a sustainability agreement with all suppliers and external service providers	This process has been completed in full.	12/2010	Achieved
	Conduct regular supplier audits	The audits have taken place for several years. For environmental reasons, they are predominantly conducted by telephone.	Ongoing	Achieved

**Objectives for 2014**

Objective	Measure	Deadline
Adjust the sustainability management system	Check the overall focus, the sustainability policy and long-term goals	12/2015
	Check climate strategy	02/2015
Expand the scope of consolidation of the sustainability management system	Incorporate the Group’s strategic subsidiaries into the environmental and sustainability management system and intensify cooperation	Gradual
Certification of management systems	Re-accredit BayernLB’s environmental management system under EMAS	Annual
Increase communication with strategic stakeholders	Increase interaction with contacts in controversial areas	08/2015
	Conduct regular supplier audits	Ongoing
	Intensify dialogue with ethical investors	12/2015

**Sustainable financial solutions**

**Objectives and achievement of objectives in 2012**

Objective	Measure	Explanation	Deadline	Achievement
Increase funding by SRI investors	Stabilise sustainability ratings: oekom: PRIME status; imug: at least “positive” in all categories; Sustainalytics: > 60 points	In imug, the outcome was not always met. This did not have any impact on the investment recommendation.	Ongoing	Partially achieved
Boost earnings by increasing exposure to sectors dealing with global challenges	Increase sector expertise for the entire environmental technology sector	This issue is well established.	Ongoing	Achieved
	Increase Group-wide exposure to sectors which are important for tomorrow’s energy		Ongoing	Achieved
Minimise ESG risks and related reputational risks	Analyse RepRisk exposure	Continual checks are performed on how the BayernLB Group is exposed to certain controversial issues.	06/2013	Achieved

## Objectives for 2014

Objective	Measure	Deadline
Increase funding by SRI investors	Stabilise sustainability ratings with respect to 04/2014	Ongoing
Increase funding by SRI investors	Increase subsidised funding for projects with a high benefit for the community	Ongoing
	Expand the donation bond to include other areas	12/2015
Expand the management of ESG risks and social challenges	Increase ESG issue management	06/2015
	Increase efficiency in compliance with World Bank environmental and social standards in export financing	12/2015

## Human resources

### Objectives and achievement of objectives in 2012

Objective	Measure	Explanation	Deadline	Achievement
Increase understanding for sustainability issues among employees	Integrate the issue of sustainability into the training programme	The activities of sustainability management have focused closely on providing information for new and potential employees. In addition, support was offered for an increasing number of graduate trainees, students at universities of cooperative education and apprentices.	12/2011	Partially achieved
Improve work/life balance	Expand programmes to support employees with children or relatives in need of care	Since what is offered in this area is so extensive, please see the corresponding chapter in this sustainability report.	12/2012	Achieved
Intensify occupational health and safety	Document the reintegration process		12/2013	Achieved
	Keep sickness rate below four percent		Ongoing	Largely achieved
Increase the proportion of women in management positions	Continue the cross-mentoring programme		Ongoing	Achieved
	Intensify reporting on equal opportunities	This issue is reported in various forms, such as the remuneration report, equal opportunities report and employee report.	12/2013	Achieved

**Objectives for 2014**

Objective	Measure	Deadline
Increase understanding for sustainability issues among employees	Integration des Themas Nachhaltigkeit in das Weiterbildungsprogramm	12/2015
	Product-specific training for employees	Ongoing
Intensify occupational health and safety	Keep sickness rate below four percent	Ongoing
Increase the proportion of women in management positions	Continue the cross-mentoring programme	Ongoing
	Intensify reporting on equal opportunities	12/2013
	Collect and monitor other social data	12/2016
	Deal with the issue of equality and advancement of women in management seminars	12/2017

**Environmental protection at BayernLB**

**Objectives and achievement of objectives in 2012**

Objective	Measure	Explanation	Deadline	Achievement
Prevent energy and resource consumption	Increase use of cooling ceilings	Due to the high of detail, please see the environment statements from 2012 to 2014	12/2011	Achieved
	Use high-efficiency pumps in in-house facilities		12/2011	Achieved
	Optimise uninterrupted power supply		12/2012	Achieved
	Increase use of energy in off-peak periods		12/2013	Achieved
Substitute CO <sub>2</sub> -intensive energy sources	Extend supply agreement to cover electricity demand from certified hydro-electric power	Power supply agreement has now been extended to 2015.	06/2012	Achieved
	Install an additional photovoltaic facility on the Bank's business premises	The contribution to power supply is reported in the environment statement.	12/2011	Achieved
Offset unavoidable CO <sub>2</sub> emissions	Revise distribution basis for CO <sub>2</sub> levies in air travel	Conducted as part of the reorganisation of the travel management process.	12/2012	Achieved
	Offset unavoidable CO <sub>2</sub> emissions at all Bank locations in Germany	Data collected to date for all locations in Germany	12/2015	Not yet achieved

## 2014 objectives

Objective	Measure	Deadline
Prevent energy and resource consumption	Keep power consumption at the 2014 level	12/2015
	Replace the lighting in corridors and (screen) workstations	12/2016
	Modernise the heating pumps in the main building	12/2014
	Reduce the indirect impact on the environment caused by business travel	12/2016
Substitute CO <sub>2</sub> -intensive energy sources	Extend supply agreement to cover electricity demand from certified hydro-electric power	06/2016
Offset unavoidable CO <sub>2</sub> emissions	Revise distribution basis for CO <sub>2</sub> levies	12/2014
	Check the option of offsetting non-avoidable CO <sub>2</sub> emissions	12/2015

## Sustainability report as part of the management system

BayernLB has reported on the achievements in its sustainability performance and the implementation status of its sustainability strategy for many years. The sustainability report plays a key part in this. It does not simply act as a communication medium, but is also an important management tool. The editorial part of BayernLB's sustainability report is not, as is usual in the sector, produced by a communications agency, but in close cooperation between Corporate Development and operational managers. As part of the reporting process, further developments in the sustainability strategy, along with the objectives and individual measures – documented in the sustainability programme – are defined, making the sustainability report an indispensable management tool in dealing strategically with sustainability-related issues.





# Integrity

Abiding by the law is a matter of course for all BayernLB employees. We have a zero tolerance policy. Culpable unlawful behaviour will not be tolerated and will result in appropriate action under criminal and/or labour law.



*Code of Conduct*

# Integrity

Responsible and transparent company management and controlling focused on sustainably increasing corporate value are key to instilling faith in business policy.

## Corporate governance

As a corporation established under public law, BayernLB has a management and supervisory structure laid down in the Bayerische Landesbank Foundation Act, with responsibilities split between two bodies, which have different members. The Bank is owned by the Free State of Bavaria and the Association of Bavarian Savings Banks, which hold around 75 percent and around 25 percent respectively, via BayernLB Holding.

The Board of Management conducts the business of the Bank. It is responsible for providing BayernLB with a proper business organisation, which, in addition to having suitable internal monitoring processes, is capable in particular of ensuring major risks are appropriately managed and monitored. To prevent conflicts of interest, Sales and Risk Office units, and Trading and Settlement units are functionally separated within the business organisation. With effect from 1 May 2009, the annual fixed salaries of the members of the Board of Management were reduced to EUR 500,000 in accordance with the Financial Market Stabilisation Act and Financial Market Stabilisation Fund Ordinance. The CVs of the members of the Board of Management are published on the company website.

The Supervisory Board resolves, for instance, the guidelines relating to business policy, appointment of the members of the Board of Management and approval of the annual financial statements and consolidated financial statements. In addition, it monitors and advises the Board of Management. The other corporate body is the General Meeting of Shareholders, which has the power to decide matters of basic principle. This includes, following prior consultation by the Supervisory Board, in particular changes to the Bank's Statutes, appropriation of profits, discharging the members of the Supervisory Board and – upon recommendation by the Supervisory Board – appointing the auditor and discharging the members of the Board of Management. From its ranks the Supervisory Board also forms, for example, an Audit Committee and a Risk Committee. The members of the Supervisory Board – including a staff representative – are appointed in accordance with the Bank's Statutes and receive standard market remuneration. They also receive an expense allowance, reimbursement of travelling expenses, and attendance fees, as stipulated by the General Meeting of Shareholders.

The Bank's corporate governance principles have summarised since 2003 the corporate management and control regulations applicable to BayernLB, which are either legal requirements or which BayernLB has chosen to impose on itself. These are based largely on the provisions of the German Corporate Governance Code, insofar as it can be sensibly applied to BayernLB as an unlisted company under public law with only two direct shareholders. The German Corporate Governance Code is intended to promote confidence of German and international investors, customers, employees and the public in the management and supervision of German listed companies. This is particularly important for banks. The corporate governance principles go beyond the requirements of the German Corporate Governance Code in a number of areas.

The Board of Management, Supervisory Board and General Meeting of Shareholders changed the corporate governance principles effective from 27 January 2014. The modifications mainly reflect the changes to the Bayerische Landesbank Act and BayernLB's Statutes, which came into force on 1 July 2013, and the changes to the German Banking Act (KWG), effective from the beginning of 2014. The adjustments thus affected in particular the provisions on the structure and internal organisation of the Supervisory Board. A description of the five Supervisory Board committees (Audit, Risk, Nominating, Compensation and BayernLabo Committee) was included for the first time. In addition, several adjustments were made in line with the latest German Corporate Governance Code for listed stock corporations.

BayernLB has a major interest in using this voluntary commitment to make its corporate governance system transparent and comprehensible so as to promote even greater trust among customers, its employees and the wider public.

The corporate governance principles continue to be regularly reviewed, amended as appropriate and published on the company website, along with the latest versions of the Landesbank Act and the Bank's Statutes, to reflect new experiences and legal requirements and changes to German and international standards.

### Code of Conduct

As a risk prevention, management and communication tool, the Code of Conduct documents the Bank's business culture. It presents guidelines and provides information on legal, ethical and responsible actions. The Code applies to all business areas and central areas of BayernLB, all employees and the members of the Board of Management and Supervisory Board. All these groups of people are obliged to comply with the Code of Conduct and to check and structure their actions according to these principles. It supplements and details existing regulations, the current Corporate Governance Principles and company and management standards. The Code of Conduct is available to the public on the company website – also in English.

With its Code of Conduct, BayernLB sends a visible signal that it is clearly committed to its corporate social responsibilities. The Code stands for compliance with all legal requirements and standards as well as with the Bank's voluntary commitments and values. It was produced at the time under the leadership of Group Compliance in cooperation with employees from various levels and functional disciplines in a participatory process. In addition to fundamental values like integrity and honesty, it includes guidelines on, for example, data protection and confidentiality, competition law and protection of intellectual property, insider knowledge, sustainability and ethics, responsibility for employees and combating money laundering, the financing of terrorism and financial crime.

The Code of Conduct is intended to serve as a set of standards for our daily activities. It is designed to contribute to fair cooperation and at the same time ensure BayernLB achieves its most important corporate goal of sustainable economic success in conjunction with corporate social responsibility. By means of various communication and other education measures, BayernLB actively ensures that the Code of Conduct is not an isolated move but a constant orientation. For example, in moderated round tables, employees are encouraged to discuss solutions to dilemmas where different values compete with one another.

Since the Code of Conduct is about playing by the rules – from matters prescribed by law to public expectations – various areas of the Bank ensure compliance with the Code of Conduct. This is pooled in the Group Compliance division.

Depending on the severity, infringements are penalised using instruments of labour law or prosecuted under criminal law.

### **Compliance management system**

Since 2009, BayernLB has pooled under the term compliance management all measures which protect the entire Bank and group of companies from illegal actions, implement the legal, corporate and socially ethical guidelines and values at BayernLB and ensure a reliable market presence of the BayernLB Group marked by compliance with the legal and regulatory requirements. This includes a broad range of tasks: combating money laundering, the financing of terrorism and financial crime and complying with/monitoring financial sanctions; capital market compliance, in other words the regulatory control function with regard to securities services, in addition to the compliance function according to MaRisk; managing conflicts of interest, which includes our anti-corruption measures.

The Group Compliance division is responsible for this management system and reports directly to the BayernLB Board of Management. In accordance with its regulatory responsibilities, the division identifies and manages compliance risks which may arise from corporate activities, legal requirements and public perception of the Bank. This occurs centrally via a compliance management system. Its structure is based on BayernLB's corporate culture, communication and governance in that it communicates, among other things, the attitude of the Board of Management and the Bank's basic values and objectives. The compliance management system consists of the modules Prevention, Operations and Investigation/Remediation.

The prevention module includes conducting regular compliance training and consulting, drawing up risk and threat analysis and continually improving planned measures. Operations includes, for example, continuous monitoring measures, controls, planned examinations, ongoing process optimisation and acceptance, coordination and assistance in acting on tip-offs from inside/outside the company (whistleblowing) and an internal hotline for questions. The third pillar, Investigation/Remediation, is based on event-driven investigations or due diligence, cooperation with external authorities and sanctioning if required.

Compliance violations are not a trivial matter. They endanger the reputation and security of BayernLB by dominating public opinion and influencing the attitude of customers, owners and business partners. In order to avoid compliance breaches, all employees are required to direct their questions and comments to their managers, departments or the compliance officers. BayernLB's Chief Compliance Officer has been granted far-reaching privileges to investigate relevant issues.

The importance of compliance, risks and measures is reported on an ongoing basis in training courses, projects, audits and controls and regular internal communication. A broad range of information on current and fundamental compliance topics on BayernLB's intranet rounds out the information provided to employees. Every Group company has its own Compliance units. Cooperation agreements have also been concluded with the strategic subsidiaries to ensure key requirements are implemented.

Clear responsibilities and reporting channels, regulations, periodic internal and external checks and reports about compliance activities ensure that Compliance is correctly performing its tasks. It is certified annually, e.g. by external auditors, in terms of the suitability and efficacy of its actions, including the respective threat and risk analyses, measures and regulations. The Board of Management and the Audit Committee of the Supervisory Board are updated regularly on all the topics mentioned above in the form of the compliance report.

In the reporting period, the Compliance division dealt intensively with international sanctions and with the issues of financing weapons exports, controversial energy sources and commodities trading and advised the Sales and Risk units accordingly.

According to a study conducted with BayernLB customers in the reporting period by the Technical University of Munich, 86.3 percent of participants are familiar with the issue of compliance. Compliance regulations are generally regarded as beneficial. For business relationships in general, compliance was rated as highly important at 8.23 (on a scale of 1– 10). 34.25 percent of participants rated compliance at BayernLB as very positive, 24.66 percent as positive.

### **Combating money laundering, financial crime and the financing of terrorism**

For BayernLB, integrity and seriousness are not just key pillars of social responsibility but an essential precondition for enduring business relations with customers. Combating money laundering, financial crime and the financing of terrorism is of key importance and is also regulated and embedded accordingly in the Code of Conduct under the heading of Financial Services. It states, for example: "We check the identity, seriousness and credit standing of our clients and business partners. We conduct regular due diligence to ensure we are not being abused for unlawful business practices such as the financing of terrorism, money laundering or other criminal acts".

BayernLB is bound by various German and international standards and implements new measures promptly and in full. Money laundering and financial crime is combated in line with rules applicable across the Group. The risk analyses drawn up at least once a year for the Bank and the Group provide a risk assessment for all divisions and relevant subsidiaries and serve as the basis for the requisite measures. The primary goal is to protect customers, employees and the Bank from damages arising from financial crime. The basic precondition is a complete picture of the customer, its business operations and the (economic) environment.

Prevention is clearly at the forefront. A new customer approval process and constant monitoring of existing relationships and transactions ensure that UN, EU and German rules on embargoes and sanctions are observed in full. The audit processes required are automated to the greatest extent possible. Audits are based on information from the Bank's own IT systems and external sources. They also stipulate negative lists for particularly critical countries based on their own findings.

However, standardised and proven processes can only successfully combat money laundering, financial crime and the financing of terrorism with the support of all staff. Therefore all employees regularly attend training in person and online and are informed of the latest issues via the intranet. All the Bank's employees are obliged to attend the events in question.

In purchasing services and materials, BayernLB also takes care that it does not establish any business relationships with companies that have become conspicuous for fraud, supporting war criminals, etc.

In addition to monitoring business relationships and transactions, not only are applicants checked before joining BayernLB, but the Bank's employees are also regularly assessed for their reliability in terms of prevention of money laundering. Staff representatives fully uphold the measures required.

### **Whistleblowing**

Compliance violations compromise the Bank's reputation and security. The compliance management system therefore provides the opportunity for tip-offs to be provided on rule violations, including from third parties. This kind of information enables violations, such as conflicts of interest or corruptibility, to be remedied or prevented. An internal operating instruction determines how this information is to be treated. Cases recorded include, but are not limited to corruption and corruptibility in business transactions, fraud (particularly in granting BayernLB funds and concluding contracts on behalf of BayernLB), money laundering, criminal offences under the German Securities Trading Act and infringements of the German Banking Act and ordinances issued due to the German Banking Act.

The Bank observes as best as possible the principle that every whistleblower who raises a concern in good faith (i.e. does not intentionally report untrue facts), must not suffer any disadvantages from doing so, even if the concern raised should prove unfounded.

### **Dealing with conflicts of interest and preventing use of insider information**

Conflicts of interest may arise in the course of work when the conflicting interests of several parties must be considered at the same time. They can also arise if private matters collide with the obligations of the job. If there is the potential for a conflict, BayernLB deals purposefully with the situation by making the conflict transparent and informing the respective manager or a Compliance officer.

BayernLB therefore actively promotes handling conflicts of interest in a reflected manner and dedicates a chapter specifically to this issue in the Code of Conduct, which recommends avoiding conflicts of interest of any kind. The primary guidelines for all employees' daily activities are purely objective criteria; the same applies when establishing business relationships with suppliers and business partners. According to the Code of Conduct, recommendations and commercial or human resource decisions may not be influenced by private interests and relationships or motivated by tangible and intangible benefits.

It is forbidden to accept or grant inducements. This applies not only to direct financial gifts but also to other perks which could cast doubt on the Bank's independence. Both when accepting and granting benefits, gifts and invitations, the Bank always complies with the limits of what is usual and appropriate, tax regulations and applicable approval requirements. Any gifts, invitations or benefits which could limit the personal independence of the recipient or raise doubts among the public about the integrity of BayernLB or the recipient are not permitted. This is regulated in a corresponding guideline on gifts and invitations. Employees have access to a variety of information providing detailed explanations and decision-making tools.

In the reporting period, the rules on accepting and giving gifts and invitations, which are embedded in the work regulations and are ultimately based on the Code of Conduct, were updated. These regulations are intended to provide BayernLB employees with principles for professional handling of benefits (in particular gifts and invitations). When accepting or granting benefits even the mere appearance of misconduct or of influencing judgement in business matters is to be avoided. Simply offering or promising a benefit (without any definite action to grant one) can be classified as corruption. For this reason no benefits (in particular gifts or invitations) are permitted in the Bank which could impair the personal independence of the recipient or which are conducive to raising doubt among members of the public about the integrity of BayernLB or its employees. This is intended to protect the Bank from reputational and financial damages and its employees from risks under criminal, labour or civil law.

As a tool for managing conflicts of interest, the Guidelines for Staff Transactions, for example, are binding for all employees. Accordingly, employees may not buy or sell securities they deal with professionally and furthermore staff transactions may not breach customer or Bank interests. Breaches of these guidelines may involve steps being taken under employment law. Any proceeds not acquired in accordance with the guidelines are to be donated to a charitable or non-profit institution.

### Responsible sales and marketing practices

Investor confidence suffered a heavy blow in the financial market crisis. Trust shown in the financial services industry by private investors in particular took a nose-dive. Although BayernLB does not have any retail customers of its own, it develops products for savings banks to sell to their end customers. It is therefore of considerable importance to ensure that private investors and the savings banks have trust in BayernLB products.

Fair communication is embedded in the Code of Conduct: “We regard appropriate advice, comprehensible products and services, suitable risk warnings and transparent documentation as essential in our work if our clients are to make informed decisions for themselves. Misleading or deceitful advertising is unacceptable to us.”

In addition, the Bank has established detailed regulations on the presentation of information and advertising messages in accordance with the German Securities Trading Act. Regardless of the customer classification, information must be honest, clear and must not be misleading; advertising messages must be recognisable as such. All information must be appropriate and reasonable for the type and content of the communication. This means that key content must not be expressed unclearly and important information must not be omitted. Acting professionally and honestly for the benefit of the customers is a basic requirement for any investment services company.

Pursuant to section 33, sub-section 1, sentence 2, no. 4 of WpHG, BayernLB is obliged to provide effective and transparent procedures for the reasonable and prompt handling of complaints received from retail clients. Each complaint pursuant to the WpHG and the measures taken to resolve it are properly documented. They are used to reveal weaknesses in meeting organisational obligations, combat breaches against rules of conduct and thus help implement the legally prescribed rules of conduct and organisational obligations. Group Compliance is responsible for these customer complaints. The organisational units concerned are responsible for recording and processing the complaints (including involving the Legal department if required). They are obliged to report them for central assessment. Overall, the external auditors have confirmed that to date BayernLB has a proper process for and implementation of complaint management for customer complaints as defined in the WpHG.

### **Dealing responsibly with customers in financial difficulties**

The Bank also feels a sense of responsibility for customers who are experiencing financial difficulties. It has signed the “European Agreement on a Voluntary Code of Conduct on Pre-Contractual Information for Home Loans” in the real estate segment.

Such cases occur predominantly in relation to managing non-performing loans among BayernLB’s end-financed residential construction loans. The unit responsible has developed a number of measures in this area, some of them unique in the financial sector, to fulfil its corporate social responsibility under the postulate of economic success. The primary objective is not to terminate the loan in the case of non-performance, but to draw up a restructuring concept, providing the borrower is willing, in cooperation with the borrower, which helps the latter to meet his obligations in the long term. This can also be a financially profitable solution for the Bank in the end. This principle applies in particular to borrowers who have suffered blows of fortune, have to survive other personal emergencies or for whom there are indications of resulting severe reactions, such as suicide. An impressive average restructuring rate of around 50 percent means that many borrowers can be helped, especially traditional private real estate customers, who are often neglected by other banks. The department responsible for supporting non-performing end-financed residential construction was spun off in the reporting period, effective from 1 January 2013; however, it continues to process these transactions as an external service provider under agreed service contracts. No major changes have been made to the day-to-day process and none is currently planned.

BayernLabo is also subject to a certain default risk in subsidised owner-occupation schemes. In the lending business with retail customers, an unforeseen life change such as divorce, illness or unemployment, can result in financial difficulties. BayernLabo relies on intensive customer relationship management to prevent defaults. The main focus of the intensive service is on tailored measures designed to financially stabilise the business partner and restore solvency. To this end, restructuring strategies are developed in collaboration with the business partners, which are intended to enable them to overcome their financial problems. It may even be necessary to sell the subsidised property. If the business partner's financial situation does not improve and/or an emergency sale of the property fails, the last resort is to liquidate the subsidised unit by means of a foreclosure sale.

### Data protection

Confidential treatment of business secrets is essential for BayernLB, its customers and business partners. Therefore using sensitive data responsibly is an important maxim for BayernLB when dealing with customers and employees. The Code of Conduct states on this topic: "It is the duty of all employees to use information gained in the course of their work only as permitted. When passing on information within the company or outside, it is essential to check that the recipient is entitled to be given it."

In other provisions, the Code of Conduct requires primarily personal data and confidential information to be handled in a considered and professional manner. In addition, it is the responsibility of the data protection officer (DPO) to ensure that legal requirements on data protection are complied with, in order to protect the subjects, such as customers and employees, from data misuse. In accordance with the law, the DPO is the sole contact within the company for data protection issues.

The Data Protection organisational unit has existed at the Bank since the German Federal Data Protection Act (Bundesdatenschutzgesetz) came into force in 1978; the unit was established to fulfil the legal obligation to appoint a data protection officer at the Bank to conduct qualified internal controls. The DPO is to report directly to the head of the public or non-public body (at BayernLB the CEO) and to exercise his/her expertise in the area of data protection independently. He/she may not be disadvantaged as a result of carrying out this task and is also subject to heightened confidentiality. His/her activities focus on checking the permissibility of data processing and proper treatment of personal data. Data protection can only be implemented effectively if an entire system is secure and must be upheld by all operational functions.

For the DPO's work specifically, this means rolling out measures and monitoring their implementation as well as constantly promoting awareness of data protection and security by targeted training and specific personal discussions. Furthermore, the rights of data subjects must be sufficiently guaranteed – particularly in the case of specific requests. The relationship with staff representatives and the supervisory authority responsible for data protection is also important and must be maintained.

The Bank implements these requirements fully in various ways: A standard data protection procedure has been put in place, which specifies detailed, in-depth and regular checks. The treatment of employees' personal data has been stipulated in a service agreement between the Bank and staff representatives, in order to protect employees' interests at all times. BayernLB's duty of care extends beyond the internal use of sensitive data, though. It also considers external service providers who process data under contract. Important breaches of data protection affecting customers, such as bank account and credit card details, are reported to the regulator immediately. In addition, as required by law, the customers affected are advised and necessary countermeasures taken.

In order to tighten treatment of confidential information, all employees are obliged to take part in data protection training on a regular basis. Planned changes to legislation, such as amendments to the German Federal Data Protection Act on protection of employee data and the European Union Data Protection Directive, are monitored and incorporated promptly. Furthermore, Data Security conducts frequent training courses and measures to communicate issues like internet security, passwords, protection from hacking, etc. to employees.

### Dealing with state aid and tax compliance

Bavaria injected a total of EUR 10 billion in capital into BayernLB at the end of 2008 and guaranteed it against losses in its ABS portfolio by means of the "Umbrella" CDS. To comply with the terms of the EU decision, BayernLB must pay back a total of nearly EUR 5 billion to the Free State of Bavaria by 2019. BayernLB completed its scheduled repayments in the reporting period and continually reports to the public on its progress.

Compliance with tax issues is part of the Bank's services in many of its business activities, in its own interest and the interests of its customers, and is anchored in the internal guidelines by means of the applicable laws and regulations. The Code of Conduct states the following: "We obey financial sanctions imposed by international and national agencies and organisations and the provisions of foreign trade law and tax law. We also seek to ensure that we avoid unlawful transactions, evasion of tax or levies, or breaches of our duty to cooperate." This is stipulated in more detail in the Group Reputational Risk Guidelines: "The Group does not participate in transactions which serve to aid tax evasion in its own or foreign countries."

Furthermore, the Bank complies with the FATF (Financial Action Task Force) recommendations in financing countries classified by the FATF as non-cooperative; it does not offer any products in the field of tax planning and optimisation or any that proactively point out tax loopholes to customers.

The BayernLB Board of Management also approved registration with the Foreign Account Tax Compliance Act (FATCA) in its meeting of 4 February 2014. The Bank accordingly follows FATCA regulations and therefore does not provide any customer advice with the aim of reducing US taxes. FATCA's objective is for all foreign financial institutions (FFI) to report data on accounts held at their banks by US taxpayers directly to the US financial authority, IRS (Internal Revenue Service). To this end, US taxpayer or non-US taxpayer status must be clearly determined and docu-

mented for all new customers and for all existing customers above a certain threshold as a basic prerequisite. Those identified as US taxpayers must be reported to the IRS with their income and, if applicable, account balances and transactions, once they have waived banking confidentiality.

The role of the Responsible Officer to examine the processes required for the implementation of FATCA will be performed by Group Compliance.

### Engaging in fair play

The Code of Conduct states on this topic: “We believe in fair competition. We therefore run our business in a professional and competent manner and do not seek any unfair competitive advantage over clients, suppliers and competitors. We comply with competition law.”

Due to the impact of the international financial market crisis, BayernLB received extensive stabilisation aid from the Free State of Bavaria in 2008 and 2009. In accordance with European competition law, these measures qualified as state aid and required approval by the European Commission. On 18 December 2008, the European Commission launched EU state aid proceedings with regard to the support provided to the Bank by the Free State of Bavaria in 2008 and 2009. The state aid was approved with conditions in the reporting period. BayernLB continually reports on the implementation status of the conditions, both to the European Commission and in its financial publications.

### Conduct as a shareholder

The Bank also takes into account sustainability-related aspects in its role as a shareholder. This primarily affects outsourced business units that provide services for the Bank – similarly to dealing with suppliers, sustainability agreements are concluded with these units in which they commit to social and environmental standards.

Key guidelines for the issue of sustainability, such as the environmental policy and sustainability policy, apply across the Group. In addition, each Group company has its own compliance units, which are obliged to ensure compliance with the stipulated requirements via cooperation agreements. Accordingly, policies relating to money laundering, prevention of financial crime and the financing of terrorism, as well as capital market compliance, apply Group-wide. The Code of Conduct has also been implemented throughout the Group in the reporting period.

Within the BayernLB Group, BayernInvest has been committed to the UN Principles for Responsible Investment (UN PRI) since 2011.



# Dialogue with stakeholders

BayernLB is committed to an open, fair and transparent information and communication policy. We provide honest and unambiguous information about corporate facts and figures and on our products and services.



*Code of Conduct*

# Dialogue with stakeholders

BayernLB believes in communicating with stakeholders in an open, fair and transparent way. This process is regulated not only by the Code of Conduct. Explicit requirements for sustainability communication also arise from the UNEP FI declaration, which BayernLB signed in the 1990s:

- Environmental reporting is mandatory – accordingly the Bank publishes an environment statement every year.
- Annual reporting on the progress of implementing CSR management systems and CSR activities is aimed for – the sustainability site [www.bayernlb.de/csr](http://www.bayernlb.de/csr) provides up-to-date information on relevant topics.
- The integration of environmental issues into business activities should be illustrated; this is provided in this report, mainly in the chapters on the sustainability management system and sustainable financial solutions.
- Banks will “share information with [...] customers so that they may strengthen their own capacity to reduce environmental risk and promote sustainable development,” [and they will] “foster openness and dialogue relating to environmental matters with relevant audiences.” This chapter complies with this requirement.

In this vein, the sustainability policy which has applied Group-wide since 2007 clearly commits to the stakeholder approach: “BayernLB regards discussions with others about sustainability as an opportunity to enhance its own development and increase society’s awareness for sustainability.” “In this way, it demonstrates its corporate social responsibility in communication, as intended in the environmental policy which has applied since 1998: “We are aware of our responsibility in furthering developments in the interest of the environment. To this end, we strive to invest our resources in these developments and also to take part in them together with all other public-sector companies.”

By regular discussion with relevant partners, the Bank increases acceptance for its actions and also gains valuable impetus for its ongoing improvement process. The management takes into account the interests of all stakeholders connected to the company when making business policy decisions as part of its management duties, as the Bank’s success is also based on the confidence that stakeholders place in BayernLB. In this context, however, managing the interests and expectations of stakeholders does not mean that the expectations of all the groups on sustainability-related issues must be met in full – which is often impossible due to conflicting interests. It is much more a case of knowing the stakeholders’ interests, taking them into account as far as possible and increasing understanding for one another through joint discussions. Because mutual understanding is the basis for constructive dialogue, which is essential to achieve the common goal of a sustainable society.

BayernLB maintains a particularly intensive communication with customers, employees, rating agencies, investors and owners for strategic reasons. However, there is also close, ongoing communication with suppliers, associations and initiatives, non-government organisations (NGOs), the media and the interested public.

Cooperation with the various stakeholders is mainly conducted by the units responsible. Sustainability Management also has an advisory and coordinating function. Discussions with associations related to sustainability and with NGOs are conducted directly by Sustainability Management. The outcomes of communication with all stakeholders are regularly described in press releases, internet publications and the employee and customer magazines.

### Communication with staff

Prompt, comprehensible and transparent communication on personnel issues is a key success factor for human resources work at BayernLB. The Board of Management, Human Resources division, Internal Communication and managers are all required to play their part.

Good staff communication includes written information and in particular the appraisals between managers and employees. This is especially important because the outcome of the European Commission's final ruling faces BayernLB with ambitious goals once again that can only be achieved with the help of all its employees. They make a major contribution to the stability and viability of the company. Within the scope of internal communications, suitable opportunities to participate in strengthening BayernLB and further improving its performance are thus created. In this regard, a range of participatory and dialogue-oriented platforms and communication channels has been established.

In order to also improve management communication, division manager meetings have been set up as a permanent fixture following meetings by certain committees. Another new feature is direct and regular discussion between the Board of Management and the Bank's department managers.

All employees have access via the intranet to an electronic manual on change management in the form of the Change Guide. This tool includes specific recommendations for action and provides checklists and other tools. Managers and project managers thus receive training in dealing with demanding change plans and gain the required basic knowledge. The employee magazine "punkt" has published major special reports on such issues as cultural change, strategic direction and bank regulation. In addition, it also regularly presents current projects and customers of the Bank.

Employees can contribute ideas and suggestions for improvement as part of idea management. Particularly effective suggestions for improvement are rewarded financially. In this manner, the Bank creates another incentive for employees to get actively involved in structuring the "new BayernLB".

In the reporting period, BayernLB developed Social Media Guidelines, intended as an aid to employees in dealing with platforms like Facebook, Google+, XING, Twitter, personal blogs, forums, YouTube, Flickr etc. in a professional capacity.

Furthermore, BayernLB's intranet is home to a broad range of information on the subject of sustainability. Information on the sustainability strategy, the environmental statement and tips on active environmental protection are provided. In order to further sensitise employees to sustainability, new junior staff are informed of the issues in related presentations and employees from the Sales divisions are trained specially on specific topics.

## Communication with customers

BayernLB is convinced that knowing the wants and needs of its customers is the basis for providing them with optimum service and it is therefore in intensive dialogue with them. This discussion also serves as an important indicator and at the same time a motivator for development of financial solutions. The Bank uses various platforms to communicate with its customers.

BayernLB's online presence, its annual and sustainability report and the "Mittelpunkt" customer magazine regularly provide information about the company and current issues in the sustainability and finance sector. The recipients of the customer magazine include all BayernLB's Mittelstand customers, the members of the Bavarian Parliament and the Boards of Directors of all Bavarian savings banks. It provides an insight into the Bank and presents both BayernLB's products and staff. Other focal points are the portraits of customers and their medium-sized companies. Best practice topics, events and other headings, such as "markets in focus", round off the concept. On the customer magazine website, existing customers will in future be able to view additional multimedia content to supplement the printed issue and find out about current issues via the internet. In this manner, the Bank enjoys even more intensive dialogue with its customers and ensures a close relationship.

In the reporting period, BayernLB once again hosted the energy industry round table. The topic of tomorrow's energy was discussed with customers and industry representatives.

BayernLabo also forged a new path to the customer in the reporting period. The revised and redesigned BayernLabo website, which launched in December 2012, contributes to better communication. For example, the "subsidy guide" provides an easy introduction to the range of services. In a first step, interested citizens calculate their annual gross salary. If their income is under the stipulated income threshold, they can apply for a subsidy. BayernLabo advertises home-ownership financing subsidy schemes on Bavarian regional radio stations and in local cinemas with catchy slogans and attractive images. The advertising campaign primarily targets young families with medium income, informing them specifically about the potential subsidies. Since use of the subsidiary programmes varies considerably from region to region, the campaign was targeted accordingly.

BayernLB continually improves the efficacy of its dialogue strategy and its performance for its customers. To this end, it conducts regular customer surveys in cooperation with professional market research institutes. In the reporting period, it achieved very positive results in the customer survey on consulting services conducted by Deutsches Institut für Servicequalität, for example. The Bank's complaint management is also being constantly professionalised and adapted to the requirements and expectations of the German and international corporate culture.

## Lobbying

Due to its company status as a “Landesbank”, the Bank plays an active role in various initiatives and banking industry associations.

First of all, it is attached to the German Savings Bank Association (DSGV), the umbrella association of the Savings Banks Finance Group. It encompasses more than 400 savings banks, seven Landesbank groups, DekaBank, ten state home loan banks (Landesbausparkasse), eleven primary insurer groups of the savings banks and numerous other financial services companies. The DSGV represents the interests of the Savings Banks Finance Group and organises decision-making within the group. It also sets the strategic direction of the Savings Banks Finance Group. Relevant positions are published on an ongoing basis on the Association website.

In addition, the Bank is a member of the European Association of Public Banks (EAPB), the Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB) – of which the CEO of BayernLB has been Chairman for many years – and the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, VdP). These organisations also report their positions transparently.

Furthermore, the Bank is a member of the Bavarian Journalists Association (Bayerischen Journalisten Verband e.V., BJV), the German Association of Press Spokespeople (Bundesverband deutscher Pressesprecher e.V.) and the International Press Club of Munich (Presse Club München e.V.). The Bank also assists with journalist training (see the chapter *Corporate citizenship*).

The Bank has not posted any employees to state or federal ministries, has no representatives in Berlin or Brussels and did not make any payments to external lobbying service providers in the reporting period.

## Memberships in other associations and initiatives

BayernLB is a member of a range of initiatives focusing on the economy and banking. The most significant of these are listed below.

### General business:

- The Association of German Foundations (Bundesverband deutscher Stiftungen)
- German Association for People Management (Deutsche Gesellschaft für Personalführung e.V., DGFP)
- The German Institute for Internal Audit (Deutsches Institut für interne Revision e.V., DIIR)
- Energy Institute London
- The German Association for Data Protection and Data Security (Gesellschaft für Datenschutz und Datensicherheit e.V., GDD)
- Marketing Club Munich (Marketing-Club München e.V)
- Association for the Promotion of German Science and Humanities (Stifterverband für die Deutsche Wissenschaft)
- Society of Munich Housing Associations (Vereinigung Münchner Wohnungsunternehmen e.V.)

### **Banking and financial services:**

- ACI Deutschland – The Financial Markets Association
- The Federal Association of German Leasing Companies (Bundesverband Deutscher Leasing Unternehmen e.V., BDL)
- The Society of Investment Professionals in Germany (Deutsche Vereinigung für Finanzanalyse und Asset Management e.V., DVFA)
- The German Derivatives Association (Deutscher Derivate Verband, DDV)
- Frankfurt Institute for Risk Management and Regulation (Frankfurter Institut für Risikomanagement und Regulierung e.V., FIRM)

### **Memberships of associations and initiatives with a focus on sustainability**

The Bank is an active and dedicated member of various associations and initiatives with a focus on sustainability. BayernLB takes an active role in handling sustainability issues in the regional, national and international initiatives listed below and considers membership as strategically important. In some cases, the membership concerned involves a range of voluntary commitments on the part of the Bank.

#### **The United Nations Environment Programme Finance Initiative (UNEP FI):**

BayernLB is a signatory of the UNEP declaration by financial institutions on the environment and sustainable development from 1997 and as such has committed to collaborating actively to achieve common environmental goals. Among other schemes, BayernLB participated in particular in a joint working group of the VfU, along with representatives of UNEP FI, on the matters of biodiversity and financed emissions.

#### **German Association of Environmental Management and Sustainability at Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V., VfU):**

BayernLB regards the key benefits of membership of the VfU primarily as being the open discussion among sustainability and environmental managers of German-speaking financial services providers and as the opportunity for an informative dialogue with experts and non-government organisations on controversial topics too. A joint round table every year with the UNEP FI discusses the latest developments in the area of sustainable finance and sustainability management. Specific topics and solutions to problems are developed in working groups. BayernLB representatives took an especially active role in forums on reputational risks, rating trends and in-house ecology in the period under consideration.

The Bank also made its mark in the VfU Finance Forum: Climate Change, for example, with a position paper on tomorrow's energy.

**Carbon Disclosure Project (CDP):**

Since 2011, BayernLB has been a signatory of the CDP, a global non-profit organisation which works to reduce CO<sub>2</sub> emissions and ensure sustainable water consumption. The Bank reports its carbon footprint to the CDP every year.

**Energy Purchasing and Energy Efficiency Working Group (Arbeitskreis Energie-Einkauf und Energie-Effizienz):**

BayernLB initiated this cross-sector working group in 1999 to discuss best practice in sourcing power and energy efficiency projects with representatives of the energy sector, DAX companies, Mittelstand companies, financial service providers and associations. In the reporting period, topics like expanding and stabilising the network and further enhancing the legal framework for renewable energy were discussed.

**Environmental Pact of Bavaria (Umweltpakt Bayern):**

BayernLB has been a signatory to the Environmental Pact of Bavaria since 1998, an agreement between the Bavarian Ministry for the Environment and around 5,500 Bavarian companies to continually improve corporate environmental protection.

**Environmental Cluster Bavaria (Umweltcluster Bayern):**

The Environmental Cluster serves to strengthen the network between companies and research in the environmental sector. It provides the Bank, e.g. as part of events, with the opportunity to deepen contacts to Mittelstand companies in the environmental technology industry at regional level and to present itself as a financial partner, especially in export finance.

**Wirtschaft weiß-blau (White and Blue Economy):**

BayernLB has been part of this initiative since 2013, because corporate citizenship is not a matter of course. Nevertheless, it is present everywhere in Bavaria. Both small and medium-sized companies and international corporations play an active role in shaping their region and the local coexistence, driven by conviction and a sense of tradition. Building on their special expertise and sector background, they develop creative and innovative solutions to deal with pressing social issues. It is often the small activities that run behind the scenes that have a big impact. The initiative wants to shed light on this varied commitment. The idea is to make visible to the public in which areas and to what extent Bavarian companies work for the community – without any obligation to do so. BayernLB wants to be a good example of this with its varied and committed activities.

**German Sustainable Building Council (Deutsche Gesellschaft für nachhaltiges Bauen, DGNB) and Fraunhofer Institute for Building Physics (Fraunhofer Institut für Bauphysik):**

BayernLB was the first Landesbank to join the DGNB in 2011. It is a cooperation of experts from the construction and real estate sector to create environmentally-friendly, economically efficient and user-friendly buildings and to develop a comprehensive DGNB certification system. The DGNB acts as an ideal platform for BayernLB for intensive discussion with proven experts.

Valuation, financing and asset management of sustainable real estate are some of the core competencies of the Real Estate division at BayernLB and its subsidiaries. In conjunction with its customers, it is working towards an ever more sustainable strategy of the construction and real estate sector. Certified and accordingly managed buildings will have clear advantages in the future when competing for tenants, at the latest in subsequent lets. For the Bank, sustainability in this context also means investing in securing competitiveness long-term by lowering facility management costs, increasing annual net income and prolonging residual useful life. BayernLB also works closely with the Fraunhofer Institute for Building Physics (Fraunhofer Institut für Bauphysik, IBP) in Stuttgart for technical expertise on energy efficiency in buildings.

### Communication with suppliers and service providers

BayernLB's suppliers and external service providers are selected according to social and environmental criteria in line with the organisation's internal Procurement Manual (Beschaffungshandbuch). Where value for money is the same, preference is given to:

- Regional suppliers, to minimise external freight costs and delivery times
- Products with an official environmental certification
- Services and products from institutions for the disabled or other non-profit organisations.

Regular assessments and rankings are carried out, in which particularly the quality, commercial and legal aspects and the cooperation are evaluated, in order to ensure that suppliers and service providers meet high quality standards.

The issue of sustainability is becoming increasingly important when selecting and assessing the suppliers. To this end, the Bank has concluded sustainability agreements with all new and, if possible, existing suppliers and external service providers since 2010. In these agreements, they consent to comply with minimum environmental, ethical and social requirements, e.g. to comply with the principles of the ILO core work standards. They must have introduced or be establishing an environmental management system and actively implement this, as well as complying with EU environmental protection standards. They must also convey these requirements to their suppliers and service providers. In addition, they must agree to internal audits to check these standards.

BayernLB checks its suppliers and service providers once a year by searching databases specialising in the issues of corruption and social and environmental risks. Furthermore, 2011 saw the first audits carried out at selected service providers. An ABC analysis identified the largest service providers, which were then interviewed on important aspects and risks, such as environmental data, climate protection and employee rights. As a complementary measure, company documents have been analysed. No critical points were found.

Since the beginning of 2010, it is now also mandatory for outsourcing to observe the sustainability agreement.

### Communication with ethical investors: Assessments by rating agencies

BayernLB's sustainability performance is evaluated regularly by independent rating agencies specialised in sustainability issues. These sustainability ratings are a key source of information for many investors when making investment decisions. Since an increasing number of institutional investors consider sustainability issues in their investment strategy, the importance of sustainability ratings is steadily rising. Against this backdrop, it is very important to BayernLB to continually improve its sustainability performance. In addition, BayernLB seeks dialogue with ethical investors to support them in implementing their investment strategies.

Although some of the ratings agencies' requirements have increased significantly in recent years, BayernLB was able to achieve good results once again in the current ratings in the reporting period. They are published daily on the company website. Furthermore, detailed information on the respective ratings can be found there, which sheds light on the sustainability performance in individual areas.

The rating results give BayernLB valuable tips on how to improve its sustainability management system. It is not just about dogmatically fulfilling rating requirements and initiating the respective measures; BayernLB regards these tips much more as starting points for a discussion on what a sustainable path in the financial sector can and should look like. Accordingly, the Bank sees itself as an important partner of ratings agencies and investors, in order to further strengthen the topic of sustainability in the capital market.

### Dialogue with non-government organisations and other civil society groups

A regular dialogue with NGOs in particular enables BayernLB to gain new insight into social challenges and to explore the positions held by the various NGOs, in order to identify critical projects early on, for example. This also gives the Bank important impetus to constantly rethink its own positions. Conversely, BayernLB also uses this dialogue to communicate its own attitude to the NGOs. Forums have been set up as a platform for communication where the Bank can discuss current topics with a range of NGOs and the most important German-speaking financial service providers. This discussion has taken place regularly since 2007 within the NGO-Bank Dialogue Forum of the VfU, which is organised by the German NGO *urgewald*.

However, the Bank also specifically expanded bilateral dialogue with the NGOs in the reporting period. Issues included financing nuclear power, coal-fired power plants, financing of military technology exports and dealing with speculation on agricultural commodities. The details of the contacts in Sustainability Management are available on the company website so that interested parties can submit their queries.



# Corporate citizenship

Acting in a business-like manner means taking responsibility for society. We take account of this responsibility as far as we can. Our commitment is centred around helping the community, education and science, art and culture and sustainable development.



*Code of Conduct*

# Corporate citizenship

For BayernLB, business activities are inextricably linked with corporate social responsibility. With this in mind, the Bank dedicated an entire chapter of its Code of Conduct to corporate social responsibility. It stipulates that the Bank concentrate its charity activities on helping the community, education and science, art, culture and sustainable development.

Donations and memberships are subject to the Bank's internal guidelines, which include annual upper budget limits. In addition, no donations may be made to individuals, missionary groups, political parties, voters' unions, cults or anti-democratic institutions.

The Bank's charity activities primarily consist of supporting projects which focus on education, helping the community and culture. The Bank also encourages its employees to get personally involved in its activities in this area.

In sponsoring, the focus is on education and scientific cooperations.

## Community work and donations

The total volume in the reporting period was:

Type of contribution	2013	2012	2011
Donations, sponsoring, foundations, etc. in EUR million	1.04	1.00	0.99
Number of days of Corporate Volunteering	206.19	128.18	106.38

In addition, employees were granted the opportunity to perform charity work within their working hours. The applicable regulations on releasing employees in such cases provides for employees to be released from their duties with full pay for up to five working days for work with aid and rescue organisations or as part of Corporate Volunteering.

BayernLB grants donations in kind in the form of its commitment to Sternstunden e.V., e.g. by providing office space.

In 2013, the focus was on supporting the victims of the "flood of the century" and the 20th anniversary of the Sternstunden charity.

In addition to those mentioned in this chapter, BayernLB supports the following organisations:

- Supporters of the Bavarian Business Archives (Förderkreis Bayerisches Wirtschaftsarchiv)
- Friends of the National Theatre (Freunde des Nationaltheaters)
- Society of Friends of the Munich Philharmonic (Gesellschaft der Freunde der Münchner Philharmoniker)
- Friends of the State Museum of Ethnology (Freunde des staatlichen Museum für Völkerkunde)
- Society of Friends of the Distance-Learning University in Hagen (Gesellschaft der Freunde der Fernuniversität Hagen)
- Max Planck Society
- PIN! Friends of the Pinakothek of Modern Art (Freunde der Pinakothek der Moderne)
- Savings Bank Foundation for International Cooperation (Sparkassenstiftung für internationale Kooperation)

### **Focus on flood aid**

The flood of the century in 2013 reached catastrophic proportions in Bavaria. So, it was a matter of course that BayernLB would contribute to easing the suffering caused by the floods. It achieved this by the following measures:

- Several employees were either severely affected themselves or were involved in helping those severely affected. BayernLB granted up to three days of paid special leave for this in cases where it could be plausibly illustrated that these days were used for flood aid.
- Activities in Rosenheim and Fischerdorf/Deggendorf were organised via Corporate Volunteering.
- BayernLB supported the “Hochwasserhilfe Bayern” (Flood Aid Bavaria) campaign initiated by Sternstunden e.V. Firstly with a donation of EUR 50,000. Secondly by BayernLB’s step-up bond under the name of “Gemeinsam helfen” (helping together), which was sold by the savings banks. The bond generated EUR 131,860, as BayernLB and the savings banks donated EUR 10 for every EUR 1,000 invested. Sternstunden launched the “Flood Aid for Bavaria” campaign even before the waters had receded, as numerous children’s aid projects and facilities had suffered severe damage.

### **Partnership with Sternstunden e.V.**

Since Sternstunden was founded in 1993, the Bank has been involved in the charity in many ways. All the money donated to Sternstunden is invested 100 percent in aid projects, because the support of BayernLB and other sponsors covers all the charity’s administrative expenses. In addition, BayernLB offers practical help, for instance by providing office space and equipment free of charge, covering the costs of printing and postage for Sternstunden donation slips, processing all payments at no cost and financing the Sternstunden annual report.

The highlight of the Sternstunden year is the Sternstunden Gala in the run-up to Christmas, which is broadcast on Bavarian TV every year. BayernLB traditionally donates EUR 50,000 to the event. Employees of BayernLB and BayernLabo also get involved in the Sternstunden day itself, volunteering to man the telephones and book the incoming donations.

Furthermore, BayernLB and many of its employees contributed to Sternstunden with additional activities in 2013. There were many opportunities to help: special sales, for example, of promotional materials that could no longer be used and art objects from the Bank's collection of paintings, company runs, sports events and joint projects to make items for the Christmas Market. In this vein, the BayernLB sports club raised a total of EUR 20,000 for Sternstunden e.V. through a large sports and family event in summer 2013 to mark its own anniversary and that of Sternstunden. An ever-popular project is the "Sterntaler" campaign, which has been a great success since BayernLB initiated it in 2001 to raise funds for Sternstunden. Customers and employees of the savings banks and BayernLB, along with anyone else who wishes, can toss foreign currency, for example left over from holidays, into dedicated collection boxes. BayernLB takes care of all the work to turn this money into "Sterntaler" (star coins) for Sternstunden. Since 2001, just under EUR 2 million has been raised so far.

Since it was founded in 1993, Sternstunden has worked to help children and young people in need. In the past 20 years, donations of over EUR 171 million went to support more than 2,400 children's aid projects to improve the living conditions of children who are sick, disabled and in need – most of them were in Germany, predominantly in Bavaria, but they were also spread throughout the world. The aid association reacts swiftly and unbureaucratically but never without carefully looking into the aid measures and subsequently monitoring the proper use of donations closely.

#### **Support for the State School for the Physically Disabled (Landesschule für Körperbehinderte)**

Since 1999, BayernLB has held a charity exhibition every two years, in which selected works of art by children and young people from the Bavarian State School for the Physically Disabled, produced as part of various art therapies and art projects, are exhibited and then auctioned off. The proceeds are shared equally between the Landesschule and Sternstunden. The auction in 2013 generated almost EUR 27,000. This is just one of the many successful campaigns which breathe life into the now 20-year partnership between Sternstunden and BayernLB year after year.

#### **Support for children and young people**

BayernLabo supported the social project initiated by the "Schüler helfen Leben e.V" (children helping the lives of others) association and once again gave young people the opportunity to work one day at the Bank in 2013. Their pay for the day was donated to youth and educational projects in south eastern Europe.

As it has done for many a year, BayernLabo once again supported the Munich police force. BayernLabo funded campaigns by the federal association of detectives against drug addiction, burglary and theft. In addition, it threw its weight behind school and public information campaigns to steer children and young people away from a life of crime and prevent child abuse.

## Corporate Volunteering

BayernLB's Corporate Volunteering programme is an expression of its commitment to be a socially responsible business.

The Bank provides 500 working days per year for the programme. Every participating employee receives a maximum of two days' "paid leave" per year and can also use up to three days of their personal time balance. This initiative has met with a very positive response and many employees have already worked as volunteers. Reports on this involvement in the staff magazine pave the way for new initiatives. Every employee can take part in or support projects and organisations that the Bank considers worthwhile.

BayernLB is also a founder member of the Companies for Munich initiative. Its objective is to provide a forum to share experiences and pool expertise in the area of corporate citizenship. The cooperation is the first initiative established by companies in the Bavarian capital that want to work together to achieve more in their commitment to social issues.

The idea is that intense discussion with representatives of the city, the social institutions and each other firstly ensure that the projects supported meet a particular regional need. Secondly, that corporate citizenship is embedded more stably and in-depth in companies.

A more long-term form of social commitment is the mentoring programme at JOBLINGE gAG. Young people who cannot find an apprenticeship are assisted and qualified over a period of six months. In 2007, The Boston Consulting Group and the Eberhard von Kuehnheim Foundation of BMW AG gave birth to JOBLINGE, as a joint project between business, the government and society. In seven locations, more than 1,900 young people have so far been given guidance and over 1,100 partner companies, 900 charities and numerous public sector institutions have been brought on board as supporters. BayernLB has been an official partner company of JOBLINGE gAG Munich since 2012. As part of this cooperation, BayernLB backs the initiative with grants to qualify unemployed young people for an apprenticeship or job. BayernLB employees began volunteering as mentors for young people with JOBLINGE back in 2009. The Bank supports the mentors as part of its Corporate Volunteering programme. Within the BayernLB Group, BayernBankett and BayernFM also offer practical aid in the form of internships for JOBLINGE.

## Promotion of art and culture

BayernLB supports and initiates art and cultural projects. As in previous years, the Bank sponsored the open air classical music event "Klassik am Odeonsplatz", which BayernLB also uses to boost customer loyalty.

In the reporting period, BayernLB once again loaned its travelling exhibition Gold from Bavarian Rivers (Gold aus bayerischen Flüssen) to the Bavarian savings banks. The exhibition shows river ducats fashioned of gold from the Danube and Isar rivers, for example. It also features gold-bearing rock samples and gold deposits from local waters, along with interesting background information.

## Promotion of education

As part of BayernLB's social commitment, it focuses on promoting education. Particular importance is placed on financial education. The promotion and implementation of educational activities is directed at interested parties in the public or at special target groups such as schoolchildren, students, journalists and real estate owners.

## Research analyses

The Research division of BayernLB regularly analyses the overall economic and financial market situation in Germany, Europe and the world. The division presents its findings to the public via the internet and special publications.

BayernLB achieved very good results here in various rankings during the reporting period. In the Forecast Survey by ZEW (Centre for European Economic Research), three and six-month forecasts for various financial market variables are sampled on a quarterly basis and analysed in the categories of point and directional forecast over a three-year period. This includes short-term interest rates (3-month Euribor), long-term interest rates (yields on 10-year German Bunds), the DAX and STOXX Europe 50, the USD/EUR exchange rate and the Brent crude oil price. BayernLB is the only bank among the 20 compared which made the top five in four of the six categories for both the point and directional forecasts. BayernLB Research therefore maintained its excellent position once again.

In the ranking of growth forecasts for Germany, which is published every year by the Süddeutsche Zeitung newspaper (previously: Financial Times Deutschland), the BayernLB Research team came 7th out of 46 organisations evaluated for 2013. The ranking evaluates the accuracy of the forecasts for gross domestic product and its demand components (consumer spending, capex and exports), which banks published at the end of each year for the following year. BayernLB Research achieved a positive 6th place on average for the past two years and was therefore well within the top 10.

## Finance Press Forum and support for journalists' training

The Finance Press Forum is an event organised at regular intervals by the Savings Banks Finance Group in Bavaria in cooperation with the Bavarian Journalists' Association (Bayerischer Journalisten-Verband e.V.), although BayernLB acts as project manager. With the aid of presentations and discussions on current economic topics presented by representatives of the Savings Banks Finance Group, young journalists increase their knowledge of the financial sector and gain input for their reporting.

In addition, young journalists of northern Bavarian daily papers were given an overview of fundamental and current financial issues at the 2014 Franconian Trainees Day (Fränkischer Volontärstag). The 35 trainees discussed the role of banks with speakers from the Association of Bavarian Savings Banks and BayernLB and acquired very specific, practical knowledge in balance sheet analysis.

## Promotion of science

BayernLB sponsors a range of university facilities and research initiatives. These targeted cooperations enable the Bank to expand its knowledge on specific topics, enables students to work on practical projects and boosts the universities in question.

### Cooperation with the LMU Entrepreneurship Center

Since 2011, BayernLB has enjoyed a cooperation with the Entrepreneurship Center at Ludwig-Maximilians-University Munich (LMU EC). This cooperation allows the Bank access to a network of expertise in selected sectors and to cross-sector issues. With this cooperation, the Bank gains new impetus for existing and potential customer relationships. The cooperation with LMU EC has proven itself in particular with regard to expanding sector expertise in the Mittelstand.

### Promotion of the FIM university course

BayernLB also has ties with the elite Finance & Information Management (FIM) course offered jointly by Augsburg University and the Technical University of Munich to give the financial managers of the future the vocational training and support they need.

## Support for business

### The Munich Financial Center Initiative

The primary goal of the Munich Financial Center Initiative (fpmi) is to strengthen and improve the image of Bavaria, especially Munich, as a financial centre and to improve the area's standing outside the region. Regular discussions are held with representatives of the European Commission and the European Parliament in Brussels, members of the German parliament and government representatives in Berlin. The fpmi furthers the interests of all players within Bavaria's financial sector. In addition to the Bank, participants are companies from the lending and insurance sectors, the Bavarian State Ministry of Economic Affairs and the Media, Energy and Technology, the Deutsche Bundesbank, Munich's stock exchange, business and trade associations and research institutions linked to universities.

### Bavarian Center of Finance (Bayerisches Finanz Zentrum)

As a member of the Bavarian Center of Finance, BayernLB helps promote its activities, particularly collaborative projects between Bavarian universities and financial service providers with a practical focus, a careers centre for newly qualified talent and the exchange of knowledge and experience at specially organised events.

### **Finance Center Germany Dialogue Forum (Dialogforum Finanzstandort Deutschland)**

The Bank continued to actively support the Financial Center Germany Dialogue Forum (DFD). The DFD is a broadscale initiative by the German financial sector to promote Germany as a financial centre.

### **German Centres**

With flexible space and an extensive range of services, German Centres in Shanghai and Delhi. Gurgaon provide German companies, especially the Mittelstand, with practical support to launch international activities in high-growth markets. Newcomers also benefit from the country-specific expertise of the German management, open access to local networks and the multifaceted experience of other tenants from a broad range of sectors. At the same time, each location is a meeting place for the German community, acting as an intermediary and a hub between German and local business and their institutions.

The German Centre Shanghai is a fully-owned subsidiary of BayernLB; the German Centre Delhi. Gurgaon is a joint venture with LBBW.





# Human resources

BayernLB promotes a working environment based on respect and tolerance. We acknowledge employee rights as a matter of course. Any form of discrimination or harassment on the grounds of age, gender, religion, ideology, race, ethnic or social origin, handicap or sexual identity or orientation is unlawful and will not be tolerated.



*Code of Conduct*

# Human resources

Even in a difficult environment, BayernLB fulfils its obligation to balance the interests of the company and its staff in a mutually acceptable manner. During the reporting period, the Bank continued to work on its focused business model and adjusted the human resources tools, such as the remuneration systems. This also entailed major organisational changes, moderate staff cuts and streamlining of the management structure.

BayernLB successfully followed the course embarked on in 2011 towards a smaller and customer-focused Bank and now it must pool its strength to forge ahead. To help staff meet the challenges and changes to come, it will continue to invest in their training, education and development.

These changes will require personal responsibility and drive despite the tougher conditions. For this reason, the Bank is offering more intensive support for the personal development of dedicated staff, since BayernLB's opportunities in the future will come from the move towards a corporate culture that sets greater store by performance and responsibility.

Vindicating the path taken, the Bank was once again voted one of the top employers in Germany in 2013 by the Corporate Research Foundation Institute (CRF), an independent research organisation which evaluates innovation management, career opportunities, work-life balance and training and development.

## Taking into account employee rights

BayernLB implements its own standard cited in the Code of Conduct, that the Bank considers employee rights as a matter of course, at all organisational levels.

The staff representatives are therefore represented on the Supervisory Board with full voting rights to ensure that staff interests receive a proper hearing in the supervisory body.

All BayernLB staff in Germany are represented by the Staff Council at the Munich, Düsseldorf and Nuremberg locations. A large number of the staff are covered by collective employment contracts. The Staff Council has proved to be an important point of contact for staff with regard to more and more complex internal and external matters, for example.

The Bank is bound by all requirements and co-determination rights laid down in law and works with the Staff Council constructively and in an atmosphere of trust for the benefit of its staff. Major topics addressed by staff representatives in the period under review included health management, the remuneration system, business policy issues, social and sporting events, holiday care for the children of employees and amicable staff reductions.

In particular, the Youth and Trainees Council (YTC) of BayernLB and the Staff Council focused intensely on the issue of permanent employment after training programmes (apprenticeship/cooperative study course/graduate trainee programme) and the possibility of making the contracts of former junior staff permanent. The performance criteria for obtaining permanent employment after training were therefore drawn up in cooperation between the Human Resources division and the YTC.

In order to carry out its duties, the Staff Council is provided with offices, meeting rooms, if required, and various communication channels.

### Equal opportunity

BayernLB has committed to ensuring equal opportunities to an especially high level as it regards the range of skills of its employees as a key success factor. For almost ten years, BayernLB’s Corporate Principles have postulated: “We condemn all forms of discrimination.” The Code of Conduct goes into greater detail: “Any form of discrimination or harassment on the grounds of age, gender, religion, ideology, race, ethnic or social origin, handicap or sexual identity or orientation is unlawful and will not be tolerated.”

The Bank has a balanced age pyramid, also in terms of gender distribution:

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
<b>Under 30 age group</b>	<b>387</b>	<b>404</b>	<b>399</b>
• of which male	185	192	180
• of which female	202	212	219
<b>30 to 50 age group</b>	<b>2,363</b>	<b>2,457</b>	<b>2,483</b>
• of which male	1,258	1,301	1,342
• of which female	1,105	1,156	1,141
<b>Over 50 age group</b>	<b>642</b>	<b>574</b>	<b>530</b>
• of which male	371	343	311
• of which female	271	231	219

Demographic change is evident in BayernLB’s workforce. The employees today are on average somewhat older, therefore more experienced, and they come from more varied cultural backgrounds. This trend is an asset and a real competitive advantage for the Bank.

In the under 30 age group, women have taken the lead, in contrast to other age groups. This shows the success of systematic work to attract junior staff, in which the company aims to achieve an equal gender distribution. The 30 to 50 age group is the strongest in terms of numbers. If we assume that most managers come from this group, there are also good opportunities for women – at least in purely mathematical terms.

In particular, the Bank regards its strict compliance with the German Anti-Discrimination Act (Allgemeines Gleichbehandlungsgesetz, AGG) as a duty towards its employees and it is rigorous in implementing the measures required to achieve this. For example, all employees receive regularly mandatory online training on the AGG, and a complaints and arbitration board has been set up as a first port of call for employees who feel they have been mistreated. The board did not receive any complaints during the 2012 and 2013 reporting period.

As per article 4, paragraph 1 of the Bavarian Gender Equality Act (Bayerisches Gesetz zur Gleichstellung von Frauen und Männern – BayGlG), the Bank must develop an equality concept every five years in conjunction with the Equality Officer. This was presented in the reporting period. BayernLB's Equality Officers also support the process to achieve equality between men and women by establishing equality concepts and initiating appropriate measures to implement them. They identify existing deficits, provide support to abolish them and monitor the execution of the BAYGLG.

Since 2010 BayernLB has been one of more than 1000 companies and public-sector organisations that actively support the “Diversity as Opportunity – The Charter of Diversity of German Companies” (Diversity als Chance – die Charte der Vielfalt der Unternehmen in Deutschland) initiative. By signing the charter, the Bank acknowledges its commitment to an open corporate culture that recognises, respects, encourages and uses the diverse talents of its employees. The aim of implementing the Charter of Diversity in the Bank is, for example, to create a working environment which is free from discrimination – this committed approach to the Charter supplements BayernLB's Code of Conduct.

To make it easier for women to reach positions of management responsibility, the Bank has participated in the innovative Munich Cross-Mentoring Programme since 2002. It is aimed at female junior managers who have taken on a management role for the first time. The participants are supported and encouraged in their professional duties for a year by a mentor from middle or top management of another company in the Munich area. The tandem relationship between mentor and mentee enables junior staff to build on their management skills, experience other corporate cultures, gain an insight into top level management and clarify their own career goals and paths.

In addition, the Bank, as one of 14 major companies in Munich, signed the first voluntary commitment in 2010 to ensure more women in management positions. As part of this voluntary commitment, 15 agreements were made, which BayernLB is obliged to implement. For example, there are plans to establish innovative models for organising working hours, which also meet the demands of management positions. Furthermore, standards are required to ensure a work-life balance, especially when it comes to the family, including for people with management responsibilities. In addition, BayernLB commits to supporting its female staff in particular with developing clear professional goals and prospects and to ensuring that the proportion of women in management positions is increased.

It is already meeting its undertakings for the recruitment of junior staff and putting forward highly skilled staff for development programmes, where the proportion of women is about 50 percent.

<b>Year-end junior staff headcount at BayernLB in Germany and abroad (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>131</b>	<b>135</b>	<b>124</b>
• of which male	70	63	64
• of which female	61	72	60

In contrast, the proportion of women in management positions is much lower:

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
<b>Employees with management responsibilities</b>	<b>312</b>	<b>318</b>	<b>329</b>
• of which male	254	263	268
• of which female	58	55	61
<b>Employees without management</b>	<b>3,080</b>	<b>3,117</b>	<b>3,083</b>
• of which male	1,560	1,573	1,565
• of which female	1,520	1,544	1,518

This trend is also evident on the Board of Management, which is smaller than in the years before the financial market crisis:

<b>Members of the BayernLB Board of Management at the end of the year</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Male</b>	<b>5</b>	<b>6</b>	<b>6</b>
• under 30 age group	0	0	0
• 30 to 50 age group	2	4	4
• over 50 age group	3	2	2
<b>Female</b>	<b>0</b>	<b>0</b>	<b>0</b>

The Bank's goal is to successively increase the proportion of women in management positions. To encourage women to assume management tasks also requires the amount of specific advice and support available to be broadened significantly, which the Bank is continuing to work on.

It is not possible to force more women to be qualified for management roles. However, a family-conscious human resources policy, which enables better work-life balance, flexible working hours models, equal career opportunities, help with caring for children and family members and a welcoming culture for those starting or returning to work, sends a positive signal, allowing both work and a career as well as a family and a private life. More details on this will be provided in the next chapter.

The Bank also lives and breathes equality in other areas. Accordingly, it has a relaxed attitude to gay and lesbian colleagues. From BayernLB's point of view, homosexuals should feel accepted as a matter of course.

Cultural diversity in the teams also drives BayernLB forward, as employees with linguistic and intercultural knowledge work efficiently in an international context. They enrich productive teamwork at many points with their views and experience.

Severely disabled colleagues also contribute to the Bank's collective commercial success every day. We thus regard their employment, equality and support as more than just a legal and social obligation. It is embedded in our understanding of diversity. The number of severely disabled employees remained stable in the reporting period.

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
Employees with a severe disability	61	63	59

### Work-life balance

The Bank is committed to establishing a good work-life balance in various areas. This is reflected, for instance, in the 30 days annual leave and working models which meet the wants and needs of the employees as far as possible through various part-time options and teleworking.

Requests by employees to work part time, on either a temporary or a permanent basis, are always fulfilled, providing there is no business case against it. The human resources manager responsible informs the requester fully of the legal consequences of working part time. If employees working part time for family reasons want to return to full-time employment or increase the number of working hours, they are given priority when the Bank is looking to fill an equivalent position, in compliance with the performance principle and the human resources requirements. The part-time ratio must be suitably taken into account when agreeing and evaluating annual goals as part of the employee appraisal. There are no disadvantages with regard to agreeing training measures, grants and acceptance onto one of the talent programmes. Professional advancement is not impaired by the employee working part time, nor does this have a negative impact on professional appraisals, salary increases or promotions. To ensure there is also financial equality here, the Bank guarantees that there are no variable salary components awarded to full-time employees which are not paid to part-time staff.

BayernLB has continued to extend the possibilities of part-time employment in the past few years. This applies to both men and women. In general, all functions at BayernLB – including management positions – can be performed on a part-time basis. Overall, it can be said that many more women than men use the option of working part time.

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
<b>Full-time employees</b>	<b>2,720</b>	<b>2,800</b>	<b>2,812</b>
• of which male	1,743	1,773	1,782
• of which female	977	1,027	1,030
<b>Part-time employees</b>	<b>672</b>	<b>635</b>	<b>600</b>
• of which male	71	63	51
• of which female	601	572	549

Different average working hours per week for men and women can be derived from this:

<b>Average weekly working hours across the entire year</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Of women	33.6	33.8	33.8
Of men	39.0	38.9	39.0
<b>Of all employees</b>	<b>36.5</b>	<b>36.5</b>	<b>36.6</b>

Given the high proportion of women working part time at BayernLB, there is still a lot of potential, in the form of possibly increasing weekly working hours once their children are older, that can be tapped in the future to combat the forecast skills shortage. On the other hand, the analysis of part-time work clearly illustrates that the greater willingness of women to sacrifice their career for the sake of family is the main reason for fewer women in management positions. People's decisions on how to organise their family life are extremely personal and must be respected.

In addition to children, caring for relatives is also an increasingly important issue – i.e. work-care balance. The new Nursing Leave Act (Pflegezeitgesetz) came into effect on 1 July 2008. It supports employees when someone in their family falls ill and requires nursing care and they have to organise or perform this care for a certain period. They enjoy special protection against dismissal while they are relieved of their duties or during the nursing leave. Applications by BayernLB employees to take nursing leave for family reasons are generally approved. If requested, those affected are given support in the form of counselling which deals with their individual issues. However, these discussions can also include advice on the changes required to the employees' duties or scope of work, on working life going forward, returning to work and, if applicable, requalification measures. The Human Resources division informs those affected fully about the consequences of the measures discussed. Appropriate measures are designed to make it easier for BayernLB employees who aim to return to work either during or after a phase of nursing. If the employee is unable to return to their previous role or position due to the nursing requirements, the Bank attempts to place the employee in an equivalent position – taking into account their qualifications and the performance principle.

Since January 2002, BayernLB employees have had the option of applying for teleworking. The steady rise in the number of teleworking employees demonstrates employees' greater interest in flexible working conditions. This trend is also testament to managers' openness with regard to employees wishing to move their place of work. In addition, BayernLB has offered the mobile user option since 2002, enabling staff to work temporarily on a laptop from home or while travelling.

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
<b>Of which with a teleworking agreement</b>	<b>219</b>	<b>222</b>	<b>227</b>
• of which male	78	79	82
• of which female	141	143	145
<b>Of which without a teleworking agreement</b>	<b>3,173</b>	<b>3,213</b>	<b>3,185</b>
• of which male	1,736	1,757	1,751
• of which female	1,437	1,456	1,434

There is a wide variety of services for employees with children or care obligations. BayernLB's premises on Türkenstrasse house a daycare centre for children, which is supported by the City of Munich. Of its 48 places, 23 are reserved for children of BayernLB staff. Children are accepted into the kindergarten from the age of three until they are of mandatory school age, depending on the places available.

Furthermore, around 100 children of employees of primary school age are looked after by qualified carers and the General Staff Council Women's Officer every year during the summer holidays.

Since 2011, the family service facilities famPlus and Elder Care have taken further pressure off employees who are subject to extreme time constraints as a result of caring for children and/or parents in need of care. In cooperation with famPlus, the Bank provides a special online platform on which it offers parents a large selection of childcare professionals along with detailed profiles. BayernLB bears the cost of arranging babysitters, childminders and nannies. Since summer 2012, the scope of childcare services offered through "famPlus" has been broadened to include provision of surrogate grandparents, emergency childcare, and a search function for facilities and holiday childcare services and for au-pairs and family assistance. A particularly interesting feature are adverts for extra tuition, which are also included in the scope of services. These services have met with a warm reception.

Since autumn 2013, there has also been a parent and child office in the main building. The room helps to solve short-term childcare problems. It is generally very well suited as a stopgap. However, it does not offer an alternative to regular childcare. The parent and child office can be booked from 8:00 a.m. to 5:00 p.m. and provides office equipment with a PC and telephone, child-friendly equipment (table and chairs, sleeping facilities, play rug) and child-friendly toys for various age groups.

In contrast to childcare, caring for and nursing relatives is often hard to anticipate; the need can arise suddenly. Experience has shown that searching for the offices and departments responsible is very time-consuming; and time is a rare commodity when someone requires nursing care. BayernLB offers all its employees swift and professional support in cooperation with ElternService AWO GmbH (Parents Service AWO GmbH), an initiative launched by Arbeiterwohlfahrt (Workers' Welfare). Its services range from finding out where there are free places in care facilities to arranging a nursing service close to where the patient lives to supporting those affected in applying for care aids and the necessary formalities. BayernLB bears the costs of the consulting and childcare arrangement services provided by ElternService AWO GmbH. The employees themselves cover the costs of the support and care services in question.

Improving the child and family care on offer is very important to BayernLB. In the next few years, it will try to gradually expand on the existing options. This is intended to make it easier for employees to return to work after parental leave.

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
<b>Employees who have started parental leave and who are still on parental leave at the end of the year in question</b>	<b>59</b>	<b>57</b>	<b>51</b>
• of which male	1	3	0
• of which female	58	54	51
<b>Employees returning from parental leave in the calendar year in question</b>	<b>115</b>	<b>105</b>	<b>111</b>
• of which male	57	55	41
• of which female	58	50	70
<b>Employees who returned from parental leave in the previous calendar year and are still working in the calendar year in question</b>	<b>56</b>	<b>50</b>	<b>59</b>
• of which male	3	1	3
• of which female	53	49	56

The figures presented here show that it is difficult to measure the good ratio of those returning to work with “normal” human resources figures – children are born all year round and families want to care for their children for different lengths of time.

### Health management

Companies face the challenge of maintaining and promoting the health of workers. This commitment is emphasised particularly in the Bank’s Code of Conduct: “It is essential that occupational health and safety and workplace security regulations be observed by all employees. It is one of the management tasks of BayernLB to provide a healthy and hazard-free working environment. In turn, we expect that our employees show a responsible approach to their health and fitness.”

The Bank has an integrated health management system. This includes company doctors, nurses and human resources managers specialised in health management. They work closely with the Staff Council, the occupational health officer, the company sport group and nutritionists from the company canteens and restaurants. The Workplace Security Committee plays an important role here, discussing issues such as building inspections, orthopaedic chairs, eye tests, air conditioning in the rooms, replacing toilet facilities and health days (Gesundheitstage) in the reporting period. These health campaign days take place for two days every year in the main building and offer taster courses, lectures and get-involved-campaigns on various health topics such as diet, exercise, sitting correctly, etc.

In addition, the health management offering includes a range of campaigns and seminars on conscious use of one's own resources, a company sports association with over 1,500 members and an array of sport and leisure possibilities on BayernLB's own company sports grounds close to the English Garden. The site encompasses a bar with a bowling alley, a 25m swimming pool (outdoors) with a sunbathing area, a football pitch and an artificial turf area (small field), beach volleyball court, six tennis courts and a children's playground.

With a view to eradicating operational risks and establishing business continuity planning, the issue of health management has been incorporated into the Bank's risk management system.

In addition, Occupational Integration Management serves to overcome incapacity to work as quickly as possible, to prevent a recurrence of the incapacity and to retain the employee's position. BayernLB supports employees who have been on long-term sick leave by helping them gradually build up their working hours and return to full productivity. The company doctor is brought in if required. There is an action guideline available to all managers on the basis of previously proven practice.

The sickness rate, which has remained almost unchanged despite the challenges of the past few years, is testament to the success of health management.

<b>Number of employees at BayernLB in Germany at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,137</b>	<b>3,143</b>	<b>3,092</b>
<b>Sickness rate (days of absence per year divided by target days per year), in %</b>	<b>4.29</b>	<b>3.94</b>	<b>4.15</b>
Of which accidents en route to/from work, in %	0.02	0.01	0.03
Of which accidents at work, in %	0.01	0.01	0.01

The accident figures remained at the lower end of the recording period over 25 years and give no indication of particularly dangerous areas or work processes. There were no serious accidents at work, nor were there a high number of similar accidents or anything striking in specific Bank buildings. They are mainly accidents which occurred on the way to or from work. As in previous years, the accident insurance provider responsible for the Bank, the Kommunale Unfallkasse Bayern, and the responsible trade supervisory board confirm that BayernLB has effective occupational health and safety, which is partly reflected in the steady, low accident figures. TÜV Süddeutschland, with whom BayernLB works closely, agrees with this statement.

### Attracting, integrating and training employees

For years, the increasing shortage of skilled workers arising from demographic change has resulted in greater competition for qualified employees, especially in Germany. BayernLB recognised this trend early on and in the reporting period it implemented more special measures to ensure it is well equipped to compete for and retain the best junior staff.

This is because investing in young talent means enabling the future. Targeted selection, support and systematic development of junior staff is the only way for the Bank to combat the lack of specialists and managers that will develop in the medium term. To this end, BayernLB's junior staff can take the first steps in their career even while still an apprentice, student or graduate trainee.

BayernLB follows two career principles in its junior staff programmes: promoting individuality as a unique characteristic, and awakening the entrepreneur in employees early on. These two goals ensure, for example, that junior staff receive special initial professional qualifications, regardless of whether they are school leavers or university graduates. Participation in the selection of training assignments as well as in seminar and support measures; use of creative freedom in projects; altruistic sharing of knowledge and experience; taking responsibility for others and cost-effective use of materials; these are just some aspects that every junior staff member becomes familiar with during their training programme. This makes them stronger and more flexible for the next stages of their career at BayernLB.

These career principles are able to convince the applicants. In 2013, all (100 percent) of the training positions for school leavers and university graduates were filled with very good applicants from among the more than 1,700 who applied; 97 percent of positions were filled in 2012. After the application documents have been checked and approved, the candidates are selected using the assessment centre method.

The Bank actively markets its training programmes to university graduates at recruitment fairs and to school leavers during tours of Munich high schools, giving regular presentations to pupils on banking careers in general and BayernLB in particular. Around 200 students a year get to know the Bank in more detail in various forms – from internal information events to internships and degree dissertations.

Every year, over 100 places are available for suitable applicants on various training programmes: the banking apprenticeship, studies alongside practical training at the Cooperative State University and the company's internal 15-month graduate trainee programme.

<b>Junior staff at BayernLB at the end of the year</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>131</b>	<b>135</b>	<b>124</b>
Of which banking apprentices	34	31	36
Of which students on a part-time (cooperative) course at a vocational academy	60	60	47
Of which graduate trainees	37	44	41
Of which male	70	63	64
Of which female	61	72	60

The banking apprenticeship (IHK) is offered as the “classic” among the commercial professions and starts on 1 September every year. In the period under consideration, the Bank once again opened up this training to school leavers with the equivalent of GCSEs. During the practical training, the apprentices are placed in various departments; the training is rounded off by a stint at a cooperating savings bank.

The studies integrating practical training at the Cooperative State University also start on 1 September and take between three and three and a half years. This full-time integrated study course culminating in a Bachelor of Arts, specialising in Banking, qualifies the student to take on responsible duties. In addition, the students can apply the theoretical knowledge obtained in practice during the training. Experienced specialists from the Bank are on hand to provide the students with further support. BayernLB diversified its training offering by adding a cooperative study course in business informatics and in 2013 it began training junior staff in four different trainee programmes.

The graduate trainee programme allows the trainee to complete a tailored sequence of five individually planned assignments and to discover which position they would like by getting to know different types of task and working in the respective departments. The graduate trainee programme can have a general focus including all areas of the Bank or it can have a set training focus from the start (e.g. risk management, capital markets, business finance, finance and accounting, mathematics, human resources, IT).

The programme was awarded the seal for career supportive and fair graduate programmes in the reporting period. The initiative by Absolventa GmbH and the Institute for Human Capital Management, LMU Munich, honours graduate trainee programmes of a particularly high standard – and BayernLB is one of them. Because the entry programme for junior staff provides university graduates with real prospects and the basis of a successful career.

The junior staff feel they are in good hands at BayernLB and want to stay at BayernLB even after they have finished their respective trainee programme. In 2013, 91 percent of the junior staff (2012: 94 percent) were offered a contract of employment at the Bank.

BayernLB continued to live up to its corporate social responsibility in 2014, with a clear “YES” to its junior staff and its training programmes. From 2014 onwards, the number of apprenticeships will be reduced by around 25 percent compared to the level in 2013 in line with requirements. 42 places for junior staff were on offer in 2014, of which 39 were filled. The Bank expects recruitment figures to remain stable at around the same level as 2014 in the next few years. When determining the number of apprenticeships, account is taken of the fluctuation rate, the overall strategy to reduce the number of employees and the age structure of the workforce. Junior staff are employed after the apprenticeship for one or two years subject to compliance with the performance criteria established together with the Staff Council and a positive evaluation of character and performance by previous managers; permanent employment requires compliance with special performance criteria. Those who wish to gain further qualifications after completing the course are encouraged to join part-time Bachelor and Masterplus programmes.

In the interests of consistently and sustainably nurturing academic talent, BayernLB sponsored a total of 15 students at the Ludwig-Maximilians-Universität in Munich and the University of Augsburg with a Germany Scholarship for the first time in 2013. Irrespective of their income, the students receive EUR 300 per month for at least two semesters. Half of the sponsorship funding comes from BayernLB, with the other half provided by the German government. This commitment pays off for the Bank: BayernLB benefits from contact with talented students and can thus get to know potential junior staff in person over an extended period.

When selecting specialist staff, the Bank focuses primarily on its own highly qualified employees. In order to give all colleagues the opportunity to apply internally for positions within the Bank, an internal job ad is usually issued first. Professional selection tools are used here, especially when appointing management positions. If it is not possible to find a suitable internal candidate, e.g. due to a very specific qualification profile, the vacant position is advertised externally.

Introductory events for junior employees provide an overview of the structure and strategy of the Bank and the BayernLB brand, as well as its understanding of sustainability. New employees in the specialist units receive an induction plan from their manager. In addition, it has proven worthwhile to assign new colleagues a mentor, who acts as a contact for functional and organisational questions. This is supplemented by extensive information packages on topics such as the canteen, sports club, etc. Young managers are offered special integration workshops to help them quickly become comfortable in their new role.

### Management system

The “management by objectives” (MbO) management tool is used at BayernLB. All employees receive individual targets each year, in combination with feedback on performance and an assessment of potential. All prospective managers at BayernLB who want to take on a first or a next level management position go through a diagnostic selection process. In addition, they receive suggestions annually from their manager with the next highest seniority as part of the MbO process.

This is rounded off by comprehensive surveys, so-called manager feedback. After the first survey on management conduct in 2010, feedback on perceived management conduct of direct superiors was collected from employees again in 2013 by means of a structured process.

Feedback to the manager was voluntary, anonymous and confidential. The surveys were conducted by the external consulting firm alstracon GmbH in order to ensure employees' anonymity. Managers only received an aggregated feedback report if at least three of their employees had taken part in the survey.

The second round achieved a participation rate of 80 percent (2010: 75 percent). In addition to the latest figures, the managers' reports also included the 2010 figures as a comparison. The majority of the managers took advantage of Human Resources' offer of a discussion and analysed their results, in order to then discuss them in joint round tables with their staff and derive potential measures. This enables management conduct at BayernLB to be continually developed. The manager feedback tool has become firmly established among managers and employees as an important communications tool to improve cooperation.

### Further training and staff development

The change on the labour market, the permanently shorter half-life of knowledge and technical and organisational change require employees to undergo an ongoing learning process. BayernLB supports this through seminars, which aid specialist and personal development. This structured further education/training, staff development, talent and career management is based on the management system. The Bank is highly committed to constantly qualifying its employees in this area:

<b>Number of employees at BayernLB in Germany at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,137</b>	<b>3,143</b>	<b>3,092</b>
Of this, the number who participated in further education/training measures (multiple measures possible)	7,160	5,603	6,203
Number of further education/training measures	1,402	1,200	1,833
Further education/training days of eight hours each Total	9,492	7,655	9,625
Further education/training days of eight hours each per employee	3.0	2.4	3.2
Costs for further education/training in EUR million	3.1	3,5	3.6

The Code of Conduct is the foundation for this, as it is based on a continual process of individual improvement: "We encourage skill and creativity. We also encourage individual responsibility and commitment. Our aim is to develop and use the individual gifts and talents of our employees as best we can. In a world that never stands still, the commitment of our employees to life-long learning is a key success factor. We provide appropriate continuing professional development opportunities."

The Bank's high commitment in this area is demonstrated by the extensive ongoing training on offer and the high take-up rate. Employees' customer focus, sales training and support for filling internal vacant positions were at the core during the reporting period.

Staff development and qualification is based on many pillars. Managers play the key role: They are responsible for developing and encouraging their employees. Continuing dialogue with their managers about achieving targets, performance and development is designed to encourage the employees to assume more responsibility and take more initiative. In this manner, employees make suggestions for their own development, define development targets for themselves, supported by their managers, and get actively involved in implementing and achieving these goals. Qualification and development is based on the individual development plan, which is updated every year.

The development measures can be divided into on-the-job measures (e.g. taking on projects), which should prevail according to the Bank's educational philosophy, and off-the-job measures (e.g. seminars and training courses). As well as traditional seminars and workshops, the latter may include part-time, longer-term education and training, often leading to the academic degree of a Bachelor or Master's. More than 100 employees per year take part. They are subsidised by the Bank on a performance-related basis. All development opportunities are supported additionally through learning by experience (coaching, mentoring, learning networks).

Managers are actively involved in the qualification and development process as responsible officers and mentors and therefore make a major contribution to the development of their employees. To ensure the success of the development measures, a preliminary meeting is held with the manager for every measure to discuss the individual development objectives. Furthermore, the measure is supported by the manager through coaching and with the aid of a follow-up meeting. These transfer talks signal the importance of further education/training measures, increase the readiness of employees to continue learning and their commitment and sensitise them for the transfer of learning at the workplace.

In 2013, BayernLB passed the education & talent management audit with flying colours and was awarded the German Education Prize. This proves that the encouragement and further development of its employees is a key focal point.

#### **“JOIN IT” retraining programme in the IT sector**

According to the sector association Bitkom, there are more than 40,000 vacant positions in the IT sector in Germany. Software developers and IT service specialists are in particularly desperate demand.

BayernLB's “JOIN IT” programme offers not only exciting responsibilities but predominantly long-term prospects. Newcomers obtain an additional qualification with the knowledge gained on the course. The Bank thus benefits from well-educated employees, who are already familiar with the needs and requirements of BayernLB from other areas.

The “JOIN IT” pilot project, which launched in spring 2013, met with a positive reception. All open positions were filled with IT-savvy and highly motivated employees. The modular programme lasts for one year and the course is similar to a (shortened) cooperative university course. The agenda includes training in IT basics, such as special programming languages, and internships in different departments. A high level of initiative is a prerequisite; the programme provides a broad foundation, but specialisations are the responsibility of the individual participants. Specially trained human resources specialists are on hand to advise the participants.

### Career and talent management

Besides a traditional career in management, people are increasingly choosing a future employer for an attractive career as a specialist. A clearly defined and structured career path and transparent career management are key to motivating and retaining staff with drive and potential over the long term.

With the career programme that has been implemented and structured since 2010, BayernLB has mapped out an equivalent career model for qualified specialists and provided them, alongside the management programme, with attractive opportunities to progress their careers within the Bank.

Specialist expertise is key in the career programme: in-depth knowledge, pertinent specialist expertise and work experience. Qualified specialists can constantly develop further and build on their knowledge. The target group for the specialist career path is high-performing technical specialists. Key elements of the specialist path plan include establishing career stages in different technical fields, identifying and listing the tasks and requirements and setting appropriate remuneration. Moving to the next-higher career stage is discussed, planned and managed using a target/actual comparison in the employee appraisal.

The management career is characterised by its complex requirements with regard to process organisation and staff management. Before employees take on their first managerial position, they must first successfully complete a structured interview process or an assessment centre. Prior to this, BayernLB supports employees preparing to take on their first managerial position or those who are considering such a move. All newly appointed managers attend the “Management at BayernLB” training programme. It is designed to help course participants develop a uniform understanding of management and to expand their management skills. These measures are supplemented by the manager feedback described above. This is a programme which gives employees the chance to provide feedback to their direct supervisors on how the supervisor’s management style is perceived. Feedback is anonymous and confidential. Managers can use this to see how they compare to all other managers at the same level. The outcome of the feedback can then be discussed in meetings between employees and their manager and steps can be taken to improve the manager’s performance if applicable.

The goal is to identify, develop and challenge high achievers with potential at an early stage. To this end, the Bank pursues systematic talent management. A series of “potential rounds” are held in each business or central area every year to identify talented individuals. BayernLB has therefore filled most of its requirement for specialist staff and managers in the past few years from its own ranks.

The high demands on talent at BayernLB require staff to take responsibility for their own career planning, constantly build on their own skills and contribute to developing BayernLB's corporate culture increasingly into a culture of performance and responsibility. This gives rise to the principles of "personal responsibility", "self-organisation" and "self-reflection" which apply to all talented staff.

The talent pool includes BayernLB employees who are confirmed as talent by the managers of the specialist divisions. Employees are nominated to the talent pool as part of a multi-stage selection process. As part of the appraisal, managers recommend employees whose performance and potential is considered appropriate for inclusion in the talent pool. Potential talented staff in a specialist division then present themselves to the management team of their *dezernat* in the "potential rounds". The managers of the divisions then discuss all candidates from their division and succession planning for specialist and management positions critical for success and select the talent for the talent pool. The compilation of the pool is generally dynamic, i.e. as part of the potential rounds talented staff are confirmed, new talent is identified or even, if applicable, confirmation withdrawn due to individual performance. The precise size of the talent pool is based on the strategic key variables of BayernLB. Currently around 2 percent of employees are nominated in the talent pool.

Once they are confirmed, all the talented staff go through a Development Centre (DC) seminar with the aim of giving them direction regarding their personal areas of development. After the DC, development objectives and expectations are discussed between the talent, their manager and a human resources specialist based on the results, and potential learning situations and vocational and extra-curricular development measures are agreed. As part of talent management at BayernLB, a basic thread and currently three topic-related learning threads for various learning requirements are on offer. Depending on the development goals, one of the learning threads and/or an individual development plan may come into question.

### Remuneration and pensions

BayernLB is ranked a major bank as defined in the Remuneration Ordinance for Institutions (Instituts-Vergütungsverordnung, or Instituts-VergV). Accordingly, a Remuneration Committee was established at the beginning of 2010 as per section 6, para. 1 of InstitutsVergV. The Remuneration Committee has an advisory role with regard to the Board of Management and monitors the appropriateness of the remuneration systems at BayernLB. In addition, the Committee is involved in setting the principles for the structure and refinement of the remuneration systems in accordance with the business model and the regulatory requirements. As per section 6, para. 3 of InstitutsVergV, the Remuneration Committee submits a written report once a year to the Board of Management and the Supervisory Board about the appropriateness of the structure of BayernLB's remuneration systems (remuneration report). The Chairman of the Supervisory Board has a direct right to information from the Remuneration Committee.

The remuneration report mentioned above was published regularly in the reporting period. It includes highly detailed figures and information on all aspects of remuneration management and occupational pensions and is available on the company website. The following statements describe just a few outlines.

The goal of BayernLB's remuneration policy is to gain qualified new employees and to motivate the entire workforce and commit them to the Bank long-term. Recognising work performed under an acceptable risk profile is a basic prerequisite for achieving BayernLB's business objectives. The principles of the remuneration system are therefore to offer a market-oriented remuneration, strengthen the relation to performance, ensure employee motivation and loyalty and allow them to share appropriately in the company's success while meeting the requirements of the ruling on the EU state aid proceedings from July 2012.

BayernLB employees under the collective pay scale receive a fixed salary in accordance with the classification and remuneration provisions of collective wage agreements for the private banking industry and public-sector banks.

The system of the annual fixed salary for employees working under the Bank's own pay scale is generally based on the value of the position and/or the role performed in line with market conditions. Remuneration is based in part on requirements regarding the qualifications and skills of the employees. Every position under the Bank's own pay scale is allocated to a job family. The responsibility attached to a role within a job family is depicted using a career ladder with three career rungs (CR1, CR2 and CR3). Each of these career rungs is allocated a certain fixed salary bracket with an upper and lower limit. The fixed salary brackets are regularly validated by using market comparisons of external remuneration consultants and are adjusted to market performance if required. In this manner, BayernLB ensures its employees receive a salary in line with the market and they are not significantly dependent on variable remuneration. The system of annual variable remuneration of collective wage agreement and BayernLB's own pay scale employees is regulated in service agreements with the staff representatives. Every role under BayernLB's own pay scale is allocated a specific reference value for annual variable remuneration by means of classification to a job family and a career rung. With the consent of the Supervisory Board, BayernLB adjusted the parameters for performance-related variable remuneration from financial year 2013. The key determinant of whether such variable remuneration can be paid is first of all compliance with the EU payment plan to the Free State of Bavaria as a central control medium. The amount of variable remuneration is based on the Bank's sustained performance. This is assessed on the three-year average of the economic value added (EVA) and its performance during the three-year period (comparison of forecast/actual figures). The aspect of sustainability, required by the regulator, is therefore also taken into account. In the event that the annual payment to the Free State of Bavaria cannot be made for reasons outside BayernLB's control, a basic amount of at least 35 percent of the entire volume of the variable remuneration can be paid. At the same time, as part of the annual assessment of whether the remuneration systems are in line with the market, the individual reference values of the variable remuneration for all BayernLB's employees under its own pay scale were adjusted to reflect current market trends and thereby considerably reduced by an average of 25 percent.

<b>Employees at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,137</b>	<b>3,143</b>	<b>3,092</b>
<b>Of which employees subject to collective wage agreements</b>	<b>1,227</b>	<b>1,269</b>	<b>1,291</b>
• of which male	404	406	426
• of which female	823	863	865
<b>Of which employees working under the Bank's own pay scale</b>	<b>2,165</b>	<b>2,166</b>	<b>2,121</b>
• of which male	1,410	1,430	1,407
• of which female	755	736	714

As per section 5 of InstitutsVergV, special regulatory provisions apply to the variable remuneration of employees whose activities have a material influence on the Bank's overall risk profile (risk takers). BayernLB identified 83 risk takers (six of whom were members of the Board of Management) based on an autonomous risk analysis for financial year 2013. The regulatory requirements distinguish between risk takers in second level management and risk takers at lower levels. If the annual variable remuneration of a risk taker is substantial, i.e. exceeds a specific allowance, 60 percent of the variable remuneration for risk takers in second level management and 40 percent of variable remuneration for risk takers at lower levels is not paid immediately but pro rata over a period of three years. Furthermore, half of the amount of variable remuneration due immediately is withheld for a sustainability period of one year.

With the amendment to the Remuneration Ordinance for Institutions on 1 January 2014, the legislator imposed much more structured, detailed and comprehensive stipulations on regulating employee remuneration at banks than was the case under previous legislation. The major amendments relate to setting the budget for variable remuneration, creating a Group-wide remuneration strategy, establishing a Remuneration Committee of the Supervisory Board and appointing an internal Remuneration Officer to monitor the appropriateness of the remuneration system at the same time as removing the previous obligation to set up a remuneration committee. BayernLB implemented most of the new regulatory requirements relating to remuneration in the first quarter of 2014. In addition, a new list of criteria on uniform identification of risk takers across Europe came into force in mid-2014. As a result of the anticipated new standard of identification, the number of risk takers at BayernLB will increase significantly. Implementation of the InstitutsVergV at the BayernLB Group is regulated by the Group Risk Remuneration Guidelines. Their purpose is to avoid incentives that would encourage employees to enter into unjustifiably high risks by laying down an appropriate remuneration system for employees whose salaries lie outside and beyond the standard pay scale.

BayernLB plans to refine the remuneration system in 2014, in particular to bring it in line with the revised version of the Remuneration Ordinance for Institutions. This ordinance has long focused on sustainable performance as a prerequisite for granting variable remuneration. Additional criteria have now also been incorporated (risk-bearing capacity, compliance with long-term capital planning, adequate capital base, the ability to comply with the combined capital buffer requirements as per section 10i of KWG and liquidity), which must be observed in future. To this end, discussions were initiated with the General Staff Council.

The occupational pension at BayernLB was restructured as at 1 January 2010 by means of service agreements with staff representatives. Employees joining the organisation since then receive a contribution-based pension commitment via the Versorgungskasse des Bankgewerbes BVV (pension fund), in accordance with the 2010 Pension Scheme (Versorgungsordnung 2010, VO 2010). The contributions are predominantly made by BayernLB. Services include old age, disability and survivor's pensions.

Currently around 250 employees have launched legal proceedings, based on various legal considerations, to assert the invalidity of the agreements to change their occupational pension concluded in 2010. BayernLB remains convinced that the agreements concluded are valid. Nevertheless, BayernLB is seeking an amicable solution with the employees, who agreed to the change in their pension. This applies regardless of whether the employees have already registered an objection. To this end, discussions were initiated with the General Staff Council at the end of 2013. In February 2014, an agreement was reached with the latter, based on which settlement offers were issued in the second quarter of 2014 to those consenting to switch to VO 2010 in return for a lawsuit waiver. Of these offers, 75 percent were accepted.

### **Managing staff turnover and protecting know-how**

Due to its demanding activities and long-term customer relationships, the Bank relies on a large number of employees remaining in the company for many years. It manages this very well. The measures described above with regard to staff development and remuneration play a key part in this.

<b>Employee base at BayernLB in Germany at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Total</b>	<b>3,137</b>	<b>3,143</b>	<b>3,092</b>
<b>Of which staff who joined the Bank less than a year ago</b>	<b>125</b>	<b>176</b>	<b>229</b>
of which male	74	86	137
of which female	51	90	92
<b>Of which staff who joined the Bank between two and five years ago</b>	<b>591</b>	<b>568</b>	<b>502</b>
of which male	321	314	265
of which female	270	254	237
<b>Of which staff who joined the Bank between six and ten years ago</b>	<b>402</b>	<b>387</b>	<b>547</b>
of which male	224	218	308
of which female	178	169	239
<b>Of which staff who joined the Bank over ten years ago</b>	<b>2,019</b>	<b>2,012</b>	<b>1,814</b>
of which male	1,039	1,039	931
of which female	980	973	883

The fluctuation rate in the reporting period was accordingly very low. However, with every colleague who leaves the Bank unplanned, a vast amount of knowledge and experience leaves along with them. The knowledge transfer process, whereby task areas and activities are restructured at an early stage, was introduced in order to retain this expertise within the company. The manager, the employee who is leaving and their successor are all involved. Special checklists as well as training and consulting services are available to this end.

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Number of employees at BayernLB in Germany at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>3,137</b>	<b>3,143</b>	<b>3,092</b>
<b>Related fluctuation rate (number of employee resignations divided by average number of employees)</b>	<b>1.53 %</b>	<b>1.60 %</b>	<b>0.15 %</b>
<b>Total fluctuation</b>	<b>52</b>	<b>55</b>	<b>5</b>
Germany	41	42	5
Europe excluding Germany	6	8	0
America	5	5	0
Male	39	42	3
Female	13	43	2
Under 30 age group	25	20	1
30 to 50 age group	24	31	4
Over 50 age group	3	4	0

## Headcount reduction

The headcount at BayernLB remained largely stable in the reporting period. There was only a slight reduction in staff, mainly at the international branches, as a result of the Hercules cost-cutting project launched in 2008.

<b>Employee base at BayernLB in Germany and abroad at the end of the year, including junior staff, excluding the Supervisory Board and Board of Management (always excluding LBS Bayern)</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
<b>Total</b>	<b>3,392</b>	<b>3,435</b>	<b>3,412</b>
Of which in Germany	3,137	3,143	3,092
• of which German	3,012	3,019	2,977
• of which not German	125	124	115
Of which abroad	255	292	320
• of which German	36	42	48
• of which not German	219	250	272
Of which BayernLB excluding BayernLabo	3,161	3,200	3,179
Of which BayernLabo	231	235	233
Of which Germany	3,137	3,143	3,092
Of which Europe excluding Germany	143	163	173
Of which America	112	130	148
Of which male	1,814	1,836	1,833
Of which female	1,578	1,599	1,579
Of which full-time employees	2,720	2,800	2,812
• of which male	1,743	1,773	1,782
• of which female	977	1,027	1,030
Of which part-time employees	672	635	600
• of which male	71	63	51
• of which female	601	572	549

Apart from this, staff cuts took place equally across the other employee groups.

In light of the EU targets and the Bank's competitiveness, another Bank-wide cost-cutting programme became necessary in 2013. It intends to considerably reduce administrative expenses by 2017. BayernLB will be able to lower two thirds of its costs by cutting down on overhead expenses and thereby just one third through personnel reductions. Still, this means that the Bank will need to cut 450 to 500 jobs by 2017. Achieving the targets set is an essential element of overall planning and a prerequisite for complying with the repayment plan to the Free State of Bavaria. In addition to overhead expenses, also examined in depth were processes and tasks, along with the related staff costs, and areas for action were identified. To ensure that the implementation of necessary personnel reductions is as coherent as possible across all divisions of the Bank, BayernLB and the General Staff Council established a regulation for amicable staff reductions in Germany on 12 December 2013. The aim is to strike a balance between the majority of employees who will continue to work for BayernLB and those who will be shed as part of the cost-cutting programme. The cornerstones of the agreement are to use natural fluctuation at the same time as imposing strict conditions on appointing staff from outside the Bank, to implement

a revolving change concept in conjunction with qualifying staff willing to switch jobs for new tasks, to provide incentives for employees and managers to reduce their working hours voluntarily and draw up offers for the amicable termination of employment contracts. At employees' request, BayernLB can combine the termination agreement with consultation on new career paths (outplacement). This advisory service is performed by a specialist external provider at the Bank's cost.

BayernLB will not take recourse to redundancies before 31 December 2015, and if it achieves its ambitious cost-reduction targets for 2015, not before 31 December 2016. Plans to implement job cuts are well on course as it stands today.

To ensure a balanced demographic structure, the Bank wants to consider filling open positions with junior staff, where possible. Junior staff therefore do not fall under the hiring freeze.

### Looking after former staff

"Talent of today – specialists and managers of tomorrow" – that is the mission statement of the Eberle-Butschkau Foundation, an institution of the Savings Banks Finance Group to promote science. Its goal is to win back students for the finance network who previously completed training at Landesbanks, savings banks and other Association partners, by offering them intensive support and encouragement. The core of the foundation's activities is the college for especially talented and high-performing former apprentices. Accordingly, acceptance to the college is subject to demanding requirements. In return, the members of the college benefit from a variety of attractive workshops, excursions and seminars at a regional and supraregional level. They are supported with research for literature as well as with searching for internships or a suitable position. Mentors advise them on career planning, and establishing a network is a key element of the support. The foundation's namesakes are Dr Johann Christian Eberle, the founder of clearing transactions, and Dr Fritz Butschkau, who made his name by transforming the savings banks into modern financial institutions.

BayernLB supports the foundation by organising regular specialist events – some of them accompanied by Corporate Volunteering. It thereby maintains contact with former Bank employees and other banks within the Savings Banks Finance Group.



# Environmental protection at BayernLB

We acknowledge our responsibility by taking ecological, economic and social issues into consideration along the entire value chain. We do so within our company operations by making careful use of resources, avoiding harmful environmental impact and treating employees responsibly.

*Code of Conduct*

# Environmental protection at BayernLB

Although the impact of bank products on the natural environment must be accorded greater weight than consequences associated with operating the business, environmental protection within BayernLB itself is nevertheless an important aspect of sustainability management.

The reasons for the intensive environmental and climate protection activities are many and varied. Firstly, through its commitment to environmental protection, BayernLB as a public-sector bank, is living up to its social responsibility for a sustainable society, and secondly, credibility gained in this area also has a positive effect on the sale of financing solutions linked to climate change.

## Environmental management system

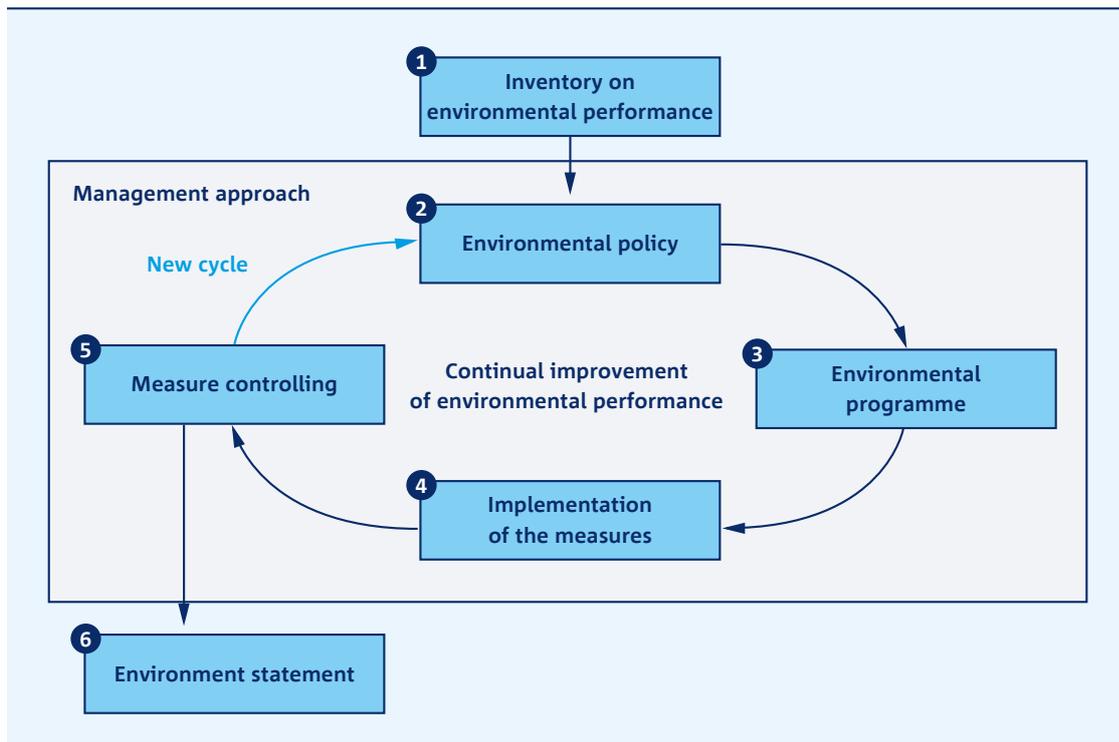
The seeds of corporate environmental protection were sown over three decades ago at BayernLB. When the Bank moved into its headquarters at Brienner Strasse 18, this building – which was one of Munich's most technically advanced buildings at the time – set new standards in energy and resource efficiency. For example, condensate from the heating system was used to heat tap water even back then. In addition, since then water has been drawn from the Bank's own well rather than the public water supply to sprinkle onto green spaces, supply fountains and feed the building's maintenance systems. Other highly effective, innovative and environmentally friendly technologies were also used, such as heat recyclers or the use only of traps funnelling cold air from the outside to cool equipment and systems during the winter months.

In the 1990s, environmental aspects were taken into account in the complete restructuring of Brienner Strasse 20 the second-largest company building, when dismantling the old building materials. A major cornerstone was the photovoltaic facility, still active today, which not only serves to generate electricity, but is also used in place of other building components. In addition, ceilings with integrated cooling systems are used instead of full air conditioning. Instead of a built-up central area, a courtyard was created with lots of greenery. A new feature at the time, the site used grey water to flush the toilets for the first time.

This advanced environmental facilities management was and still is the foundation of corporate environmental management, which has been continually broadened and expanded in the past few decades, particularly in the form of ongoing modernisation measures at the Bank's business premises. For example, the first full time position for an environmental protection officer was created in 1993. As early as the following year, he led to the introduction of comprehensive environmental guidelines, which formed the basis for incorporating ecological aspects into business operations. The first environmental performance assessment was also published in the same year. The obligation to comply with the guidelines was strengthened in 1995, when the Bank signed the UNEP FI declaration (United Nations Environmental Program Finance Initiative), a voluntary commitment at UN level to integrate environmental protection into banking. In 1998, the Group-wide environmental policy, which was based on the environmental guidelines and still applies today, was approved by the Board of Management. Since then, it has formed the basis for any and all measures to improve environmental performance.

We have been implementing our wide-ranging green policy in a coordinated manner through a structured management system accredited under the European Eco-Management and Audit Scheme (EMAS) Regulation since 1999 and certified since 2011 under the international environmental management standard ISO 14001. The externally validated management system, which covered the Munich headquarters only until 2010, was extended in 2011 to include other German locations such as Nuremberg.

The related management approach is as follows:



At the heart of the management approach is BayernLB’s environmental policy, which provides the framework for incorporating environmental aspects along the value chain. Compliance with legal provisions, which BayernLB regards as the minimum standards, is stipulated in the sustainability policy. The sustainability policy is supplemented and clarified by the environmental policy. Environmental protection and a commitment to sustainability have been fundamental to the Bank’s Code of Conduct since 2011. In 1998, BayernLB established and published its environmental policy. The ten principles it comprises cover all the major ways in which a bank can help protect the environment. The environmental policy was issued as a formal resolution by the BayernLB Board of Management and communicated to all of the Bank’s employees. It is binding for all employees and applies to the entire corporation.

It has long been standard at BayernLB to publish an annual review of its environmental performance in which all environmentally-relevant uses of material and energy are recorded, appraised and analysed with regard to their streamlining potential. As early as 1993, green issues had paved the way towards focussing attention on the environment. In the process, the company's use of material and energy were recorded and appraised as part of the first environmental performance review. Based on the results of the analysis, the environment programme was finally compiled and included fixed targets and measures aimed at continually improving environmental performance.

Defining specific targets and the commensurate measures to achieve them depends on the target system being operational. In this respect, annual emissions analyses are conducted, with the object of determining the CO<sub>2</sub> emissions from business operations. These analyses cover the aspects of business operations mentioned above.

- Energy consumption of buildings
- Water consumption
- Paper consumption
- Volume of waste
- Volume of business travel

Operationalisation of the target system created the basis for a climate protection strategy that has been rigorously implemented since 2007. The environmental management system as per EMAS creates a solid foundation for this.

At least every three years, targets are created for all relevant areas, in combination with measures for implementing them. The resulting environment programme serves as a guide for all environmental activities. The annual assessment ensures the transparency required to continually develop and improve environmental protection. Since 2001, BayernLB has been keeping a constant close watch on all its environmentally-relevant processes, and their compliance with legal stipulations, by conducting internal corporate-ecological audits. Employees from across all levels are included in the environmental management system.

In 2006, responsibility for environmental and sustainability management was transferred from a local division to the Corporate Development and Group Communication division which reports directly to the CEO. As a result, the organisational prerequisites enabling the environmental management system to continue to develop successfully were consolidated into one sustainability management system. To ensure that functional areas mesh seamlessly together and to react quickly to changing requirements, the various areas of responsibility have been integrated into the environmental management system in the following structure: Environmental and sustainability management is and remains a universal issue, which is why employees from across all management levels and divisions are involved in the management system. The relevant specialists responsible implement individual measures at operational level.

Annual environment statements provide proof of how well the environmental system is performing, of the level of resource consumption and the carbon footprint. They are regularly published on the company's website.

### Energy supply at key BayernLB locations

An essential part of the environmental management system is to have a transparent and considered relationship with energy and resource providers.

Energy provider NaturEnergie is BayernLB's electricity supplier for the buildings it uses. The company is 100 percent emissions-free in its operations. It also promotes emissions-free operation and the generation of renewable green energy (hydro-electric power, solar power systems and wind power). BayernLB extended its contract with NaturEnergie in 2013 to continue until 2015.

Munich Municipal Utility (Stadtwerke München) supplies BayernLB premises located in the inner city with heating and drinking water and disposes of the company's waste water, while BayernLB generates its own steam and cold water. Steam then is generated using natural gas – a primary energy carrier – which the company purchases from Mainova. Cold water is generated by using refrigeration machines that use cold outside air, recooling systems (free cooling) and ventilation systems.

Greywater is supplied by rain water, waste water from water treatment units and the waste water generated by cooling towers. Greywater is currently being used to flush the toilet facilities.

### Implementation of the climate protection strategy

Although BayernLB dramatically reduced greenhouse gas emissions from operations between 2005 and 2010, just as comprehensive emissions analyses were starting to be implemented, the result since then has been a considerable increase in absolute and relative greenhouse gas emission levels (compared to an all-time low in 2010). This was firstly down to improved data quality and changes made to conversion procedures (alterations in data collection), and secondly down to harsh winters and a steep increase in business travel expenses due to more intensive sales activities.

In a bid to continually improve its environmental footprint going forward, BayernLB has developed a comprehensive climate protection strategy. It is based on the three-step process of avoidance, substitution and offsetting and has been successfully implemented since 2007.

#### Step I – Avoiding resource consumption

The first and most important step in implementing the climate protection strategy is to consistently avoid business-related CO<sub>2</sub> emissions through active energy and resource management. In the past few years, a broad range of measures have been initiated and implemented in this regard, predominantly in terms of upgrading buildings and modernising technology. These measures are reported in the annual environment statement.

Although there was a decline in energy and water consumption, the volume of waste and paper consumption, this very pleasing performance could not offset the steep rise in the volume of business travel as a result of much more intensive sales activities.

### Energy consumption in company buildings

	Unit	2013	2012	2011
<b>Direct energy consumption</b>	<b>MWh</b>	<b>28,693</b>	<b>26,991</b>	<b>28,023</b>
Percentage of renewable energy	%	49	49	47
Of which				
• electricity	MWh	14,047	13,390	14,210
• heating	MWh	14,646	13,601	13,813
Energy efficiency	MWh/employee	9.3	8.8	10.8

BayernLB's electricity consumption in 2013 was up 5 percent year-on-year from 13,390 MWh to 14,047 MWh. The PV system generated 11 percent less energy in 2013 than in 2012 due to fewer sunshine hours, which equates to a decrease from 37 MWh to 33 MWh.

The biggest factor affecting consumption in the reporting period was the weather. This resulted in a drop in demand for heat energy between 2011 and 2012. Conversely, the colder weather conditions experienced in the following year led to an increase once again. As a consequence, district heating consumption in 2013 also rose by approximately 8 percent on the previous year from 13,601 MWh to 14,646 MWh. In contrast, cooling energy consumption sank from 7,030 MWh in 2012 to 6,953 MWh in 2013, which represents a decrease of around 1 percent.

### Water consumption

	Unit	2013	2012	2011
<b>Water consumption</b>	<b>m<sup>3</sup></b>	<b>50,829</b>	<b>57,270</b>	<b>56,038</b>
Of which				
• rainwater	m <sup>3</sup>	8,875	7,932	7,292
• ground and surface water	m <sup>3</sup>	14,435	19,164	17,492
• drinking water	m <sup>3</sup>	27,519	30,174	31,254
Relative water consumption (litre/employee)		16,381	18,444	19,067

Water consumption at BayernLB's Munich location increased by around 2 percent year-on-year in 2012 to 57,270 m<sup>3</sup>. At the same time, the intense use of ground and rainwater resulted in a 3 percent decrease in drinking water consumption. The reason for the increase in overall water consumption is that water had to be frequently undergo a water softening treatment process (reverse osmosis). The system was replaced in November 2012. Renovations on the trading centre led to another increase in consumption in 2012. Detailed consumption figures are not available, however.

In the following year (2013), water consumption at the Munich location eventually dropped by around 11 percent year-on-year to 50,829 m<sup>3</sup>. Among other causes, increased rainfall and building consolidation also contributed towards this.

**Volume of waste**

	Unit	2013	2012	2011
<b>Volume of waste</b>	<b>t</b>	<b>986.66</b>	<b>877.60</b>	<b>778.80</b>
Of which				
• for recovery/recycling	t	447.6	474.5	479.2
• for incineration	t	371.2	263.2	163.9
• for landfill	t	51.4	39.9	32.4
• hazardous waste	t	116.5	100.0	103.3
Relative waste generation	kg/employee	306	283	556
Relative generation of hazardous waste (special waste)	kg/employee	37	31	38

Compared to 2011, waste generation increased by over 13 percent, or 99 t, to 878 t in 2012. The main cause of this is the high amount of residual waste and bulky refuse generated by renovations on the trading centre.

2013 saw another increase from 877 tonnes to 987 tonnes (approximately 10 percent) on the previous year. This was due mainly to the increase in bulky refuse, generated when the premises at Türkenstrasse 5–7 were cleared out and demolished in 2013.

BayernLB reached its target of disposing of all waste fractions in an environmentally-friendly way.

**Paper consumption**

	Unit	2013	2012	2011
<b>Paper consumption</b>	<b>t</b>	<b>164.5</b>	<b>195.2</b>	<b>219.3</b>
Of which				
• recycled paper	t	123.5	135.5	65.6
• ECF/TCF paper	t	41.0	59.7	153.7
Chlorine-bleached new fibres	T	0	0	0
Paper material efficiency	kg/employee	52	62	84

All paper (fresh or recycled fibres) used at BayernLB either bears the Blue Angel label, the FSC label or Ecolabel.

BayernLB’s absolute paper consumption has decreased dramatically between the 2012 and 2013 reporting years when compared to previous years. The switch at the start of 2012 to using just one type of paper has certainly contributed greatly towards this since a variety of printing errors have been avoided as a result. A reduction in waste paper generation through printing or copying also finally led to a reduction in toner consumption. However, this is not a matter recorded as part of the environmental management system.

A further reduction in paper consumption is to be expected for the next few years. For a start, key financial publications have been digitised: In this era of online reporting, the Bank will send annual and interim reports, plus separate financial statements, in electronic form only, in particular due to sustainability considerations. At the same time, this will also allow interested parties to access our publications immediately after their quarterly release by BayernLB. And since mobile devices are also supported, this can be done from just about anywhere. Secondly, we considerably reduced circulation for our internal employee magazine “punkt” in 2013. Distribution switched to a self pick-up system where employees collect the magazine from central locations. For colleagues who prefer to read “punkt” online, the usual PDF version is available on the intranet. These measures allow the Bank to take another step towards considerably reducing print runs and thus optimising costs. They also incorporate reader suggestions to this effect. At the same time, an improved, more user-friendly, digital version of “punkt” is being developed.

Thirdly, BayernLB has considerably reduced the overall number of office printers since 2013. This has meant removing or replacing inefficient or malfunctioning printers. A special procedure, known as SafeCom/PullPrint, is being used increasingly for confidential printouts. Overloaded equipment is exchanged for more efficient devices. Moreover, documents are set to print in black and white with the duplex function activated as standard, especially as colour printouts – even if they only contain a small amount of colour – cost around five times as much as printing in black and white. Consistent duplex printing saves an additional 50 percent in paper costs. Consequently all printouts will be black and white double-sided as standard in the future. If a colour or single-page printout is required, employees can change the settings before sending the particular document to the printer.

However, paper consumption only plays a minor role for BayernLB when it comes to reducing the Bank’s carbon footprint. Still the use of recycled paper is also a key factor in conserving water, something which cannot be depicted using the VfU tool.

Even though BayernLB is still some way off becoming a completely “paperless office”, a concept frequently called for, the Bank is heading in a positive direction overall.

#### Volume of business travel

	Unit	2013	2012	2011
<b>Volume of business travel</b>	<b>km</b>	<b>16,265,156</b>	<b>17,659,502</b>	<b>18,007,717</b>
By road	km	6,076,408	6,597,089	5,164,053
Of which				
• own cars	km	433,000	544,181	568,014
• rental cars	km	396,870	634,935	666,446
• company cars	km	5,246,538	5,417,973	3,929,593
By rail	km	1,737,548	1,887,197	3,242,029
By air	km	8,451,200	9,175,216	9,601,634
Of which				
• less than 500 km	km	2,758,426	2,898,887	2,882,676
• over 500 km	km	5,692,774	6,276,329	6,718,958
Business trips per employee	1,000 km/ employee	5.2	5.6	4.4

Although business travel at BayernLB decreased by 2 percent overall in 2012 compared to 2011 (while the percentage of employees fell by 3 percent), it was unable to gain any ground on 2010, due in particular to the increased use of company cars.

BayernLB also failed to reach its target in 2013 to reduce indirect environmental impacts caused by business travel, which was based on 2010 figures. There was a reduction in air and rail travel between 2012 and 2013, which can be traced back to changes made to BayernLB's business model. Compared to 2010, however, there was no improvement. The main reason for this is the increase in the use of company cars since 2011 which itself can be traced back to an increase in sales activity.

With a view to avoiding greenhouse gas emissions and travel costs associated with business travel, employees are required to consider possible alternatives to travel before embarking on a journey, especially where there is no need from a customer perspective. Staff are also provided with the technical infrastructure to hold video conferences and conference calls. Furthermore, company car guidelines contribute towards reducing CO<sub>2</sub> emissions.

BayernLB also strives to further reduce the impact on the environment from commuting. The bank has concluded agreements securing employees the use of reduced-price tickets (job tickets) with both Munich's local transport provider Münchener Verkehrs- und Tarifverbund (MVG) and the Deutsche Bahn railway. These agreements permit employees to travel to work at a discounted price subject to specific terms and conditions. In addition, a new bicycle station was erected at the start of May 2013 between house 16 and 20. A total of 210 bicycles can be parked in the two-storey station. A compressed air supply with two different valve heads is also available for pumping up bicycle tyres.

## **Step 2 – Substituting CO<sub>2</sub>-intensive energy sources**

As a second step, conventional sources of electricity have been and are being replaced wherever possible. For instance, the Bank's premises at Brienner Strasse has used power from a photovoltaic facility installed on a building of the Munich head office since 1998. What is notable about this facility is that the elements, comprising many photovoltaic modules, are used not just for electricity generation but are also used in place of other building components. For example, photovoltaic elements are positioned obliquely on the frontage to provide shade, in addition to being used as projecting roofs, glass roofs above corridors and rear-ventilated frontage elements. The power generated in this way is not fed into the public grid, but is used internally. A further photovoltaic facility was installed on the roof of another building and put into operation during the reporting period. As it currently stands, the facilities are able to generate around 60 MWh of power a year.

However, the amount of power generated by BayernLB's own photovoltaic facilities is small by comparison with its actual electricity consumption. The Bank therefore satisfies its entire remaining electricity requirement at its Munich location exclusively from certified hydroelectric power stations on the High Rhine. Long-term contracts ensure that BayernLB will cover the full electricity requirements of its company buildings from renewable energy sources until the end of 2015. According to the power supplier, this enables the Bank to save more than 10,000 tons in greenhouse gas emissions each year.

In addition to the Bank's internal use of hydro-electric power, employees also have access to special discount rates from the electricity suppliers, which has aroused considerable interest.

### Step 3 – Offsetting unavoidable CO<sub>2</sub> emissions

Calculations of greenhouse gas emissions are based on the data system of the Association for Environmental Management and Sustainability at Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten, VfU). The VfU indicators make reference to international standards of environmental and climate protection reporting, such as the Greenhouse Gas Protocol (GHG), and have established themselves as the internationally recognised industry standard for reporting emissions figures.

Greenhouse gas emissions	Unit	2013	2012	2011
Absolute greenhouse gas emissions	t	6,361	6,387	4,845
Relative greenhouse gas emissions	kg/employee	2,016	2,023	1,579

Although BayernLB has been able to reduce greenhouse gas emissions caused by operations by around 72 percent since the implementation of comprehensive emissions analyses in 2005, there was a considerable increase in absolute and relative greenhouse gas emission levels during the reporting period of 2011 to 2013 (compared to an all-time low in 2010).

Greenhouse gas emissions are categorised as direct, indirect and other indirect:

- Scope 1: Direct emissions due to fuel combustion within the company, emissions caused by physical or chemical processes and volatile emissions; this generally includes emissions from heating, the company fleet and coolants.
- Scope 2: Indirect emissions resulting from power generation; this includes greenhouse gas emissions from electricity and heat production outside the company. In the case at hand, electricity consumption and the use of district heating fall into this category.
- Scope 3: Other indirect greenhouse gas emissions; these include emissions from business trips taken by train, air or rented vehicle, paper consumption in administration and water consumption.

The final step in the climate protection strategy is now to offset CO<sub>2</sub> emissions by purchasing certificates from various externally verified climate protection projects. “Climate neutrality” will be achieved as a result. Climate neutrality relates to net emissions from business activities – i.e. gross emissions less offset emissions. Thanks to its climate protection strategy the Bank’s premises in Munich have been climate neutral since 2008. In 2010 it was joined by the Nuremberg and Dornach sites and the project should be gradually expanded to other locations.

This commitment is driven by the conviction that combating the negative effects of human-induced climate change is one of the greatest challenges facing society in the 21st century. By establishing flexible mechanisms in the Kyoto Protocol – this includes emissions trading, the clean development mechanism (CDM) and joint implementation (JI) – the United Nations has put in place a framework for countries to reduce greenhouse gas emissions in a cost-effective manner. BayernLB regards the agreements in the Kyoto Protocol as a political consensus and considers the mechanisms agreed to be sensible from an environmental-economic point of view. It supports its customers in meeting the obligations of the European emissions trading system and by offering trading in emissions certificates, it provides an instrument for risk hedging; however, the Bank also uses Kyoto mechanisms itself by offsetting unavoidable emissions as part of its climate protection strategy.



# Sustainable financial solutions

In order to meet clients' expectations fairly, we only offer products and services we can provide professionally. We also consider sustainability issues when looking at business transactions. We follow the principle of ethical responsibility in our dealings and in examining business relationships and transactions. We also ensure they are compatible with the relevant international environmental, ethical and social standards we have signed up to.

*Code of Conduct*

# Sustainable financial solutions

The wide variety of activities in the social and environmental sectors would be cancelled out if sustainability aspects were not also systematically taken into account on the product side. Since the impact of Banks on society is determined to a large extent by their market activities. Banks therefore have a particular responsibility to consider environmental and social aspects also with respect to their products.

Banks can and must make a significant contribution to promoting a sustainable society by offering sustainable products and services. In BayernLB's opinion, sustainable financial solutions have the following characteristics:

- They generate funds for companies and projects that operate sustainably or are conducive to a sustainable society.
- They finance companies and projects which contribute to combating social challenges such as resource and housing shortages.
- They comply with ecological, social and ethical standards for minimising the negative impacts on society.

Moreover, great importance is attached to providing customer information. BayernLB has positioned itself particularly well in this regard thanks to the transparent, easy-to-understand product information sheets it designed in 2011, a compulsory element in the Bank's financial consultation. As part of two current (2014) studies, independent specialist publications ("DZB – Der Zertifikate Berater" and "Welt" in cooperation with "Sapient Global Markets") inspected the quality of the content included in the product information sheets, and partly that of the online information regarding structured products at investment banks. BayernLB's comprehensible, detailed product information sheets make the Bank stand out once again from the crowd, just as in the first DZB studies from 2012 and 2013, putting it in the 3rd and 4th positions. Although BaFin (German Federal Supervisory Authority for Financial Services) raised the bar higher for banks by introducing new standards, BayernLB has been able to defend its position on the leaderboard and is among the five institutions rated as "good".

## Sustainable investment products

Sustainable investments, also commonly referred to as socially responsible investments (SRIs), are forms of investment that take into account ecological and social criteria as well as economic factors. The market for such forms of investment has grown considerably in the past few years, especially due to the surge in interest among institutional investors. Through its Group companies – such as its subsidiaries BayernInvest Kapitalverwaltungsgesellschaft mbh (BayernInvest) and Deutsche Kreditbank Aktiengesellschaft (DKB) – BayernLB provides both institutional and private investors with these investment products.

### Sustainable fund products and sustainable asset management

Through its asset management subsidiary, BayernInvest, the BayernLB group offers its customers products that meet high sustainability standards. Through the “DKB ecofund” customers can invest predominantly in the shares of companies in the climate and environmental technology industry which only engage in sustainable business practices. Companies in the “DKB future fund” also have to meet strict sustainability criteria. They are excluded if they breach human rights or are active in the defence industry. The securities for these products are selected based on analyses by oekom research AG, one of the leading global independent providers of sustainability ratings. This ensures that the financial resources generated via these funds are invested in companies which fulfil the requirements of sustainable development.

The BayernInvest Aktien Sustainable Value Europa fund, which is also managed according to sustainability criteria, was closed during the reporting period.

Fund volume as at 31 Dec in EUR million	2013	2012	2011
DKB ecofund	10.89	8.34	8.38
DKB future fund	15.03	11.60	10.26
BayernInvest Aktien Sustainable Value Europa fund	N/A	4.86	5.83

BayernInvest also declines to invest in companies that manufacture prohibited weapons unless it is the express wish of the customer to do so. In addition, as part of the management of its retail funds, BayernInvest does not invest in agricultural commodities or related derivatives. This exclusion also affects future third-party retail funds which are managed or maintained on behalf of BayernInvest Luxembourg S. A. in Luxembourg. This complies with the procedure for retail funds.

BayernInvest’s clear commitment to sustainable capital investment manifests itself in particular in its signing of the United Nations Principles for Responsible Investment (UN PRI). BayernInvest also has its own policy on the exercise of voting rights. BayernInvest’s far-reaching measures play a key role in enabling BayernLB to satisfy the demand for sustainable investments with products based on well-founded analysis by a renowned provider of sustainability ratings, thus meeting the high standards of ethical investors.

### Sustainable, fixed-income securities

BayernLB not only offers its customers the opportunity to invest in sustainable companies but also in specific, sustainable projects. To this end, BayernLB developed a Donation Bond Campaign (“Aktion Spendenbond”) for the savings banks as a major customer and partner, a concept by which private investors invest in a fixed-income security while at the same time supporting charity projects. Basic principle of this concept: The savings bank donates three euros for every EUR 1,000 invested to a charity or welfare institution in the region. BayernLB pays the savings banks an incentive for this product, which usually completely covers the amount of the donation. BayernLB generates donations by waiving a profit margin and commission from the savings banks.

The donation bonds can be issued within a short space of time. Around a week is required to do this which, should the need arise, enables very swift and straightforward assistance to be provided. During the reporting period, BayernLB issued a bond to support children in the Philippines affected by typhoon Hayan, for example. Customers were able to subscribe to this bond at savings banks in Bavaria. As a result, approximately EUR 25,000 was collected for SOS Kinderdorf e.V.

Investors were also able to provide assistance for the victims of the 100-year flood in Germany by purchasing a step-up bond from BayernLB in mid-2013. As the issuer, BayernLB paid EUR 10 for each EUR 1,000 invested to Sternstunden e.V., which supports children affected by the flood. "Helping Together" ("Gemeinsam Helfen") is an irredeemable step-up bond. This means that the coupon increases in several stages over a term of six and a half years. The yield amounts to 1.58 percent p.a. over the entire term. The customer is repaid in full at the end of the term.

A similar bond was issued for flood victims in the Balkans in 2014: Around 1.5 million people were affected by the flood disaster in Bosnia, Croatia and Serbia. The heaviest rainfall for 120 years flooded many towns and villages, while landmines washed up by landslides (dangerous relics from the civil war) aggravated the situation. Tens of thousands were made homeless due to the flood. In response, BayernLB launched a relief campaign: The "BLB2TD" step-up bond is the fourth bond BayernLB has issued for general charitable purposes. Five euros were donated per EUR 1,000 investment, resulting in a total of around EUR 60,000 given to the emergency relief agency SOS-Kinderdorf Munich.

BayernLB also regularly issues bonds for charitable purposes in partnership with savings banks during the Christmas and Easter periods.

Because they are backed by municipalities and have strong regional ties, savings banks have a social mandate and are therefore predestined to sell sustainable products. With the donation bond concept, BayernLB supports the savings banks in fulfilling this important socio-political task.

### **Civic engagement**

DKB offers support to customers who make a significant contribution to the successful development of their region through investing in renewable energies or in infrastructure measures and who also aim to strengthen ties to citizens and customers at the same time. Suitable investment models ensure that these proposals receive greater acceptance and so enable the community to participate in an economic sense by including the community in their implementation. DKB has developed suitable solutions for many requirements and objectives. These solutions include DKB citizen saving ("DKB-Bürgersparen"), one example of indirect civic engagement, and the DKB civic engagement account.

### **Charitable foundations, savings banks association and the public sector**

BayernLB has been assisting foundations and managing endowment funds for over twelve years. Its subsidiaries, Real I.S. and BayernInvest, offer customised funds solutions. When it comes to making investments, besides observing the legal framework conditions specific to the foundation in question, the Bank also considers which forms of investment might best suit the ideal aims of the foundation.

The Bank deliberately neither acts as a sponsor for what are known as trust foundations nor does it accept mandates for management or foundation board positions in customer foundations. BayernLB is an active member of many investment committees where the Bank remains strictly neutral and transparent in the advice it provides as part of these mandates. Consequently, the Bank avoids any conflicts of interest in terms of corporate governance in regard to selling its own products. Bavarian organisations from the world of research and large public sector foundations are among some of BayernLB's long-standing partners. As of 31 December 2013, the Group had mandates with over 200 foundations, which together represent assets under management worth around EUR 1.5 billion.

The Bank offers expert advice during the conception and foundation phase of charitable foundations to the Banks' own clientele as well as customers of the savings banks interested in establishing a foundation. One special feature is the cooperation within the Savings Banks Finance Group. The founder is able to contact all German savings banks via BayernLB and enjoy the whole range of services provided by DSGV. Moreover, targeted consulting services focus on the public sector in order to support charitable endeavours from within this sector in a city or region.

What is more, BayernLB is happy to provide charitable organisations with access to its network of foundations to support their fundraising or cooperative endeavours.

### **BayernLB Capital Partner sustainability approach**

BayernLB Capital Partner specialises in equity funding schemes for highly profitable Mittelstand companies. It provides succession and growth financing in the form of majority and minority shareholdings and mezzanine capital. BayernLB's principles for sustainable financial solutions and the criteria laid out in the Bank's ethical, social and ecological standards are taken into account when making decisions to invest.

### **Financing a sustainable restructuring in energy supply through the BayernLB Group**

Following the events in Fukushima in March 2011, the German Federal Government approved a white paper on the transition to tomorrow's energy, thereby setting the political stage for sustainable energy supply. The white paper mainly prescribes the step-by-step phasing out of nuclear power by 2022, the systematic expansion of renewable energy and an increase in energy efficiency. Even after the parliamentary elections for the Bundestag in September 2013, this programme will be continued in the parliamentary term.

BayernLB wants to assist its customers rise to the challenge and leverage business-related potential from the transition to tomorrow's energy, thereby making an important contribution to implementing the transition to tomorrow's energy. The Bank regards its contribution not only as financing companies and projects in the renewable energy sector; it also follows much more of a broad approach covering the following segments:

- Environmentally-friendly energy generation
- Infrastructure measures (electricity and heating networks)
- Efficiency measures in various sectors (real estate, production, infrastructure)

Financing companies and projects in these segments has been a strategic focus of BayernLB for several years. The Bank's proven expertise is coupled with very close customer relationships with key players. Through the Group, BayernLB can support all customer groups, from corporate and municipal customers to savings banks to retail customers. BayernLB's customers can benefit from the Group's strength and a broad range of products, which includes the following financial services:

- Corporate and municipal financing and structured financing (project finance, export and leasing finance) to implement projects related to the transition to tomorrow's energy
- Special rates financing for particularly sustainable properties (green buildings)
- Providing subsidies for investments in environmental protection, environmentally-friendly energy generation and efficiency measures.
- Hedging against energy and commodities prices (e.g. CO<sub>2</sub> certificates, electricity, etc.)
- Offering products borne of the Kyoto Protocol.

Solarpark Groß-Dölln was among the outstanding

- Financing projects in the reporting period. BayernLB and Unicredit played a leading role during 2013 in financing the construction and operation of the Gross Dölln solar power plant in the north German state of Brandenburg. The two banks arranged and structured approximately EUR 150 million in debt financing for the project, which has a total value of nearly EUR 200 million. KfW, the German national development bank, provided the funding for the project for 18 years through its "renewable energy" programme. Spread out over an area of nearly 200 hectares (approximately 500 acres) and with a capacity of 128 megawatts, Gross Dölln is the second-largest open-field solar power plant in Europe.
- Butendiek offshore wind farm 2013: the financing of the Butendiek offshore wind farm, in which BayernLB has participated, marks the realisation of a major project in the energy transition. The efforts of German politicians to create reliable conditions for incorporating power generated at sea into the network and to ensure the targeted cooperation of all project parties and the support of European subsidy institutions such as the EIB, KfW and EKF have established the secure investments demanded by sponsors and lenders. Concluding the financing of this EUR 1.4 billion project sent an important signal for the German offshore market. Financing of the loan capital amounting to EUR 940 million was arranged by KfW-IPEX, UniCredit and Bremer Landesbank. BayernLB participated in the financing as Mandated Lead Arranger with a share of EUR 30 million. The Butendiek Project encompasses the construction and operation of a North Sea wind farm around 32 kilometres to the west of the island of Sylt.
- Barth solar power plant 2013: BayernLB has structured and financed the construction and operation of the 31.5 MWp "Barth" solar power park as part of a project financing. The solar power park is the second largest in the northern German state of Mecklenburg-West Pomerania. Around EUR 11 million of the total project costs of EUR 54 million was put up by the project sponsor and builder, Renenco renewable energy concepts AG. The remaining EUR 43 million was financed by a loan from BayernLB. KfW, the German national development bank, provided the funding for the project for 18 years through its "renewable energy" programme. The solar power park is located on land belonging to the Stralsund Barth airport, which is situated near the Baltic coast close to the town of Barth and 35 km northwest of Stralsund.

- N-ERGIE biomass power plant 2012: BayernLB, along with Landwirtschaftliche Rentenbank and KfW bank, financed a EUR 36 million biomass heating power plant for the northern Bavarian energy utility N-ERGIE. The new power plant employs an environmentally friendly system, which reuses the heat from electricity production to heat homes and businesses and thus achieves an efficiency rating of nearly 85 percent. The biomass power plant is one of the first of its kind in Germany to be integrated into the existing district heating system. The power plant has a capacity of 14 MW of district heating and 6 MW of electricity.

Further projects are presented regularly on the company website.

DKB has been assisting customers with their investments in renewable energy for over 15 years. The scope of action ranges from projects and investments made by individuals, housing companies, local authorities and municipal organisations to farmers. The installed plants supply around 2.9 million households with green electricity.

In a move to understand the challenges facing its clients, BayernLB has been involved in various cooperations over the reporting period, for example with Munich's Ludwig-Maximilian-University and the Fraunhofer Society for the Advancement of Applied Research to gain in-depth and up-to-date sector expertise by means of knowledge transfer on economic and technical issues. In addition, it seeks constant dialogue with its customers and is part of important networks, such as the German Renewable Energy Agency (Agentur für Erneuerbare Energien e.V.) and the Environmental Cluster Bavaria (Umweltcluster Bayern), a network of representatives from business and academia in the field of environmental technology. This close integration is very important, as the transition to tomorrow's energy can only be implemented if the financial and real economy stand shoulder to shoulder.

With this approach and its wide-ranging expertise, BayernLB will continue to assist with the restructuring of the German energy system and thus contribute to a more environmentally-friendly, reliable and affordable energy supply.

### Contribution of the subsidy business to sustainable development

The state's readiness to act and the political will to support investments in sustainability are reflected in a variety of subsidised lending programmes for various purposes. The funds under these programmes are made available in the form of low-interest subsidy loans by state-owned funding bodies, such as KfW or LfA, and can be utilised to fund a very wide range of projects. Investments to modernise residential property, to improve energy efficiency in businesses – for example by modernising plant and equipment – or to expand the use of renewable energy can all be subsidised by means of low-interest loans and, if necessary, with repayment subsidies. These subsidised loans are open to retail, commercial and municipal customers alike. BayernLB works in close cooperation with Bavarian savings banks to provide these customer groups with the optimal financing concepts through the inclusion of subsidised loans.

As a central institute for savings banks in Bavaria, the Bank has provided customised consultation for the market for decades and cooperates with the savings banks in taking over all business transactions conducted with subsidised institutions. As a result, BayernLB is constantly in contact with the organisations being subsidised and provides savings banks in Bavaria with up-to-date information, e.g. via a special call centre to which subsidy-related business questions are referred and via a newsletter and information service. All of this keeps employees at the savings banks right up-to-date with the regional, national and EU funding opportunities available.

The subsidy business is a focal point of the market development in conjunction with the savings banks. The Bank has developed an efficient specialist department that advises Bavarian savings banks on the availability of and conditions attached to the plethora of state funding opportunities and provides consultation on the application and subsequent processes. For savings banks, this option is a cost-effective way to score points with its retail and corporate clients by offering low-interest loans. Although pass-through business is costly, the Bank is able to make a profit due to economies of scale. In 2013 alone, subsidised funding experts processed around 25,000 applications and pledges.

Now, due not least to its strategic focus on tomorrow's energy, BayernLB also intends to continue business in this attractive and important market segment. There is a clear need for these services among customers. As energy prices keep rising inexorably, investing in energy efficiency gains is becoming increasingly important for all companies. BayernLB provides advice and helps its customers to finance the use of innovative and efficient technology, for example in the form of plants to use waste heat from cooling cycles, at low interest rates.

DKB has also incorporated subsidised loans from national and regional investment banks, besides funds from European investment banks (EIB), for many years and transfers the added value generated from low interest rates and programme-specific repayment subsidies to its customers for their investments. For example, partners EIB and DKB signed a contract for a global loan worth EUR 200 million. As a result, DKB was able to offer low interest loans to private and public companies for small and medium-sized projects, in particular for projects related to sustainable energy supply. Funds were also used to invest in protecting the environment, local public transport and health and education projects.

### **Sustainable real estate business**

BayernLB also lives up to its aim of making a significant contribution towards developing a sustainable society – from both a social and ecological perspective – in the real estate sector: Investments aimed at increasing energy efficiency or introducing renewable energy to the energy supply are essential for making climate protection effective. These investments have a positive impact on the long-term value of a property, e.g. through reduced operating costs.

Various certification systems – such as the German Sustainable Building Certification awarded by the German Sustainable Building Council (DGNB) and the Leadership in Energy and Environmental Design (LEED) awarded by the US Green Building Council – have been successfully established to measure and document the sustainability of properties. Tenants and buyers alike will increasingly look for properties with these certificates in the future in the interests of ensuring their competi-

tiveness. In this light, the Bank regards sustainable real estate as a key growth market and will continue to step up its exposure to this growing market segment. Customers and business partners are able to draw on experience from various pre-certified projects: BayernLB recognises the advantage in value terms brought by such certifications in competitive markets and is increasingly supporting its customers in building sustainability projects. The Bank is extremely well equipped to do so, thanks to its broad product range:

- Bayern Facility Management GmbH (BayernFM) – an expert in the savings banks financial group on property management, sustainable construction, energy efficiency, subsidies and real estate collateral – assists its customers through the DGNB certification process, for example, which is conducted by a certified auditor. BayernFM’s many years of experience in facility management range from its inventory of over 3 million m<sup>2</sup> of floor space to implementing step-by-step projects to make large building complexes climate neutral. In addition, BayernFM provides comprehensive assistance to companies, financial institutions, investors, public authorities and private real estate owners when optimising real estate holdings, and for new build or renovation projects. Quality, intrinsic value, keeping to budgets and deadlines while respecting the environment are always kept in focus. As an EMAS and DIN EN ISO 9001-certified company and as the first climate neutral facility management service provider in Germany, BayernFM also implements these targets systematically in its own company.
- LB Immobilienbewertungsgesellschaft mbH (“LBImmoWert”) documents value and risk-relevant aspects of sustainability issues in its expert reports, enabling BayernLB to offer its customers preferential terms for properties proven to be planned and managed in sustainable fashion, in the form of higher collateral values and hence cheaper funding costs. LBImmoWert affirms the added value of certification whenever it can be demonstrated that lower facility management costs, higher annual net income, longer residual useful life and improved interest rates are generated.
- Real I.S.: Investors also benefit from sustainable, energy-efficient buildings since they promise a good long-term return on investment. Real I.S. is a wholly owned subsidiary of BayernLB with over twenty years’ experience in real estate asset management. The subsidiary’s various awards certainly confirm its expertise, such as the two Feri awards in the categories of “Best International Real Estate Initiator” and “Outperformer”. Real I.S. has a scope management rating of AA, “very high quality”. Moreover, Real I.S. has gained national and international experience over many years in real estate certification. Various properties both nationally and abroad have already been rated highly. Products must meet “green” standards when implementing a strategy focused on achieving sustainability.
- BayernLB passes the lower funding costs for the financing of properties that meet the required sustainability criteria on to customers. It also offers particularly attractive terms from a special quota and is able to support customers along the entire value chain – from realisation to letting and selling and also facility management – thanks to its networks and the strength of the Association.

Noteworthy financing projects during the 2013 reporting period include properties for the elderly for the Hellmich Group: BayernLB was on hand as a financial partner for the construction of HEWAG homes for the elderly. For a number of years, the Hellmich Group has also been acting as an investor and operator of residential homes for the elderly through its corporate division “Life

and Health” and “HEWAG Homes for the Elderly”, and continues to expand its activities. BayernLB was also able to assist the company as a financial partner when constructing three new HEWAG properties for the elderly. The total investment volume for residential properties for the elderly stands at around EUR 34 million.

### BayernLabo sustainability approach

The Free State of Bavaria is a dynamic German state and has consequently been subject to stark changes – demographic and structural change place constant pressure on infrastructure. A wealth of compensatory measures are at hand to prevent this pressure from negatively affecting socially disadvantaged population groups. BayernLabo is responsible for having developed some of these measures, and has been doing so for almost 130 years.

BayernLabo’s primary aims are to create affordable, modern housing in Bavaria, to support Bavarian local authorities financially with infrastructure projects and thus to put Bavaria in a stronger position in the long-term. With low interest rate loans and a range of funding programmes, BayernLabo is a strong partner for the people of Bavaria, – for families, students, handicapped persons, hospitals and nursing facilities, schools and childcare facilities, and much more.

As a body charged with implementing government housing policy, BayernLabo – BayernLB’s development bank – undertakes tasks in the area of sustainable residential and urban development. Its business activities are divided into the following areas:

- Fiduciary business includes subsidy programmes financed by the Bavarian state budget. They include
  - Promoting new private and rental housing construction and the acquisition of private housing under the Bavarian residential construction programme and
  - Building student dormitories and residencies for handicapped persons.
- Business includes subsidy programmes which are refinanced via the KfW banking group (KfW) and on the capital market:
  - The modernisation of rental housing and residential care facilities for the elderly under the Bavarian modernisation programme.
  - The construction and acquisition of private housing under the Bavarian interest subsidy programme.
  - Customised municipal loans, e.g. fixed rate loans, variable rate loans or forward rate loans, in municipal business.
- Subsidised loan programme for Bavarian local authorities are issued in cooperation with KfW:
  - Investkredit Kommunal Bayern – to finance general municipal and social infrastructural improvements
  - Energiekredit Kommunal Bayern – to finance energetic refurbishment of all municipal and social infrastructure buildings (non-residential buildings) built before 1995.
  - Inklusionskredit Kommunal Bayern – to finance measures for reducing and removing barriers and renovating municipal infrastructure to make it suitable for the elderly and disabled.

- Special programmes are launched as required, such as:
  - A sports venue subsidy programme
  - A programme for promoting the construction of special private schools
  - A flood damage programme
  - A programme for promoting the construction of new, replacement residential nursing homes

These funds have a restricted purpose, which ensures that they are used in a way that is environmentally and socially responsible. BayernLabo conducts its government-backed development mandates on a non-competitive basis, and its entire business strategy adheres strictly to the regional principle: all business activities are limited to the Free State of Bavaria. BayernLabo is a reliable partner – for every stage of the business relationship. This means that the sale to third parties of receivables from customers is categorically prohibited. BayernLabo's activities are regularly presented on the company website and in its own subsidy reports.

### Observing standards in the BayernLB Group

Regardless of the kind of business activity undertaken, the following principles apply to the BayernLB Group:

- The Group observes all EU and UN embargo and sanction policies. Moreover, local regulations also apply insofar as these are required.
- The Group has a zero tolerance policy when it comes to any possible financial crimes against the Group, its customers or its employees and combats every form of financial crime.
- The Group does not conduct business with persons who have been convicted of committing bankruptcy or insolvency crimes, corruption, money laundering, financing terrorism or other serious offences. Moreover, the Group refuses to conduct business with companies managed by persons convicted of such crimes.
- The Group does not participate in transactions which serve to aid tax or levy evasion and/or reduction in its own or foreign countries.
- The Group complies with the recommendations of the FATF (Financial Action Task Force) in conducting business with countries which the FATF lists as non-cooperative states.
- The Group does not conduct any business with those who are implicated in the following issues or business practices: drug dealing, human trafficking, sexual exploitation, exploitative child and forced labour, slavery, smuggling immigrants, organ trafficking, prostitution, pornography or product piracy.

These generally applicable principles are supplemented by the following guidelines for individual business activities.

## **Guidelines for trading and capital market transactions**

With the exception of measures for overall bank management, the BayernLB Group does not conduct trading transactions in its own name or on its own account (proprietary trading). Trading transactions are only conducted when they are initiated by the customer and are thus directly linked to the customer. The service function for the real economy is at the forefront of BayernLB's business operations due to the cessation of transactions not directly linked to a customer. The BayernLB Group fulfils its commitment to corporate social responsibility by performing its service function and has developed issue-specific guidelines for trading and capital market transactions. These are as follows:

- **Speculative transactions on foodstuffs:**  
BayernLB does not conduct any speculative transactions in relation to foodstuffs. This means that BayernLB does not invest in agricultural commodities or related derivatives. Nor does BayernLB provide any investment products in the commodities sector. BayernLB products for hedging the price of wheat, corn or rapeseed are focused on the needs of agricultural holdings, mills or bakeries and are not suitable for speculation, but serve to hedge physical underlying transactions. In addition, as part of the management of its proprietary retail funds, BayernInvest KAG does not invest in agricultural commodities or related derivatives. In the future, this exclusion will also affect third-party retail funds which are managed or administered by BayernInvest Luxembourg S. A. in Luxembourg, in line with the procedure for a bank's own retail funds.
- **Controversial or prohibited weapons:** BayernInvest KAG essentially refuses to invest in companies which produce the following controversial or prohibited weapons: anti-personnel mines, nuclear weapons, biological and chemical weapons, cluster munition.

## **Tax compliance**

BayernLB Group employees act in such a way that no unlawful transactions, evasion of tax or levies, or breaches of our duty to submit information for tax purposes occur as a result of their actions or advice.

## **Guidelines for financing transactions**

As well as these ESG-related guidelines, the BayernLB Group also has guidelines for financing transactions. The World Bank's environmental and social standards must be observed in all project-based individual transactions or project-based financing. The terms "project-based individual transactions" and "project-based financing" cover not just structured financing (e.g. project or export finance), but as a general rule all financing where the purpose is known. As early as 2004, BayernLB established a Group-wide guideline committing it to environmental, social and ethical principles across the entire project and export financing business to the extent that they can be applied. This means that BayernLB does not finance any projects related to human trafficking, forced labour or child labour or which breach either the World Bank's environmental and social standards or other standards on which the Equator Principles are based. These standards define, for example:

- How environmental and social management systems are to be structured in order to avoid or minimise any potential negative impact
- How population groups affected by a project are to be brought into the project development process
- How biotopes and habitats are to be protected and
- How to ensure that dealings with indigenous peoples respect their human rights.

These generally applicable qualitative requirements are supplemented by sector-specific quantitative rules designed to guarantee the effective prevention of environmental, health and safety risks. The World Bank's environmental and social standards (World Bank standards) are a set of guidelines consisting of the IFC's Performance Standards, sector-specific environmental, health and safety (EHS) guidelines and general EHS guidelines. The BayernLB Group regards compliance with these standards as a minimum requirement for all projects it finances and thus contributes to the sustainable development of society. Although the Equator Principles are a voluntary set of guidelines for determining, assessing and managing social and environmental risk in project financing for the financial services sector and their content is based on the World Bank standards, the BayernLB Group has – unlike other banks – chosen not to sign up to the Equator Principles and continues to follow the tougher World Bank standards. This decision was based not only on the requirements as regards content, but also on the limited field to which the Equator Principles apply: In their original 2003 version, the Equator Principles applied only to project financing with a volume of upwards of USD 50 million. The financing volume above which the principles apply has since been reduced to USD 10 million, but the restriction to project financing remains in place. The BayernLB Group firmly believes that environmental and social standards should be applied to all possible project-based deals, irrespective of the bank product or financing volume. The Group thus complies to the best of its ability with the World Bank's environmental and social standards where export financing is concerned too. The World Bank environmental and social standards are to be seen as a quasi-industry standard for all transactions that provide finance and are supplemented at the BayernLB Group in the case of particular, especially critical topics by the following guidelines/approaches:

- Nuclear power industry

Not least the events in Fukushima have shown that nuclear power is a high-risk technology with almost unpredictable subsequent risks. Therefore, the BayernLB Group does not finance any new projects to build new nuclear power plants or projects to degrade or extract nuclear fuels, no matter where they are in the world. However, the operation of existing nuclear power plants and related issues poses a major challenge for society. The BayernLB Group thus considers the financing of nuclear power plant operators who are responsible for the safety of existing nuclear power plants and their decommissioning as a contribution towards tackling this challenge. This financing ranges from funds for plant replacement to ensure compliance with the strictest of safety standards (including outside Germany) to the financing of projects for the treatment and disposal of nuclear waste provided all rules applicable in the countries of origin, transport and destination are observed.

- Traditional energy projects and sources

Fossil fuels will be an important source of energy and a way of securing the energy supply both in the short and the medium term – particularly in a global context. The BayernLB Group considers its work in this area to be an important contribution to positive economic development that is the basis for society's prosperity. The BayernLB Group is also conscious, however, that implementing projects in this area can sometimes give rise to considerable environmental, social and societal risks. With this in mind, the BayernLB Group meets its responsibility to society, ensuring compliance with the following guidelines when financing projects in the traditional energy industry and projects for extracting fossil fuels:

- Coal

- Where project-based financing of new coal-fired power stations is concerned, the plants must be state of the art. Where project-based financing to renew existing coal-fired power stations is concerned, there must be an increase in efficiency. Projects must not be carried out in areas designated as UNESCO World Heritage Sites or protected by the International Union for Conservation of Nature (IUCN). We do not finance projects that involve mountain top mining.

- Oil and gas

- Projects must not be carried out in the Arctic or Antarctic or in areas classified as UNESCO World Heritage Sites or protected by the International Union for Conservation of Nature (IUCN) or the Ramsar Convention.

- We do not finance projects for the extraction of crude oil from oil sands or for the extraction of natural gas by fracking.

- Trading in physical commodities

The BayernLB Group is conscious of the high level of responsibility that the trade in gold brings with it. For this reason, the Group has been a member of the London Bullion Market Association (LBMA) since 2002. The entire Group meets the LBMA standards. The LBMA's strict requirements mean that BayernLB also meets its corporate social responsibility when trading in physical commodities. All bars in which the BayernLB Group trades meet the LBMA standard. Only bars from non-conflict regions are permitted for trading. The refineries admitted for trading on the London Bullion Market must ensure that the gold they supply comes from sources that have no link to money laundering, the financing of terrorism or human rights violations.

- Arms financing

The BayernLB Group acknowledges the rights of countries to defend themselves. Thus, various forms of financing (e.g. loans, guarantees, shares) or individual financing transactions for weapons or armaments for arms companies are in principle possible. We require that the financing is approved following an obligatory case-specific examination and that it is in line with our business model. Each examination assesses the arms firm, the purpose of the financing and, where applicable, the importer, the country of import and the current political and social situation there.

The guidelines are refined on an ongoing basis. Information on the latest developments can be found on our website.



# GRI content index\*

<b>1. Strategy and analysis</b>		
1.1	Foreword by the Board of Management	p. 12f.
1.2	Key impacts, risks and opportunities	p. 12f., p. 16ff., p. 100–112
<b>2. Organisational profile</b>		
2.1	Name of the reporting organisation	Bayerische Landesbank
2.2	Key brands, products and services	p. 8f.**
2.3	Operational structure	See 2013 consolidated financial statements; p. 78ff.
2.4	Location of headquarters	Munich, Germany
2.5	Foreign branches	See 2013 consolidated financial statements; p. 300f.
2.6	Nature of ownership and legal form	p. 8
2.7	Markets served	p. 8 f.**; see 2013 consolidated financial statements; p. 90–97.
2.8	Size of the organisation	See data, inside front cover
2.9	Significant changes during the reporting period regarding size, structure or ownership	p. 66; see 2013 single-entity financial statements; p. 12–16
2.10	Awards received in the reporting period	p. 58, p. 74f., p. 77f.
<b>3. Report parameters</b>		
3.1	Reporting period	2012/2013
3.2	Year of most recent previous report	2012
3.3	Reporting cycle	Biennial
3.4	Contact point for questions regarding sustainable management	See publishing details, inside back cover
3.5	Process for defining report content	p. 10f.
3.6	Boundary of the report	p. 10f.
3.7	Specific limitations on the scope or boundary of the report	p. 10f.
3.8	Scope of consolidation	p. 10f.
3.9	Data measurement techniques and bases of calculations	p. 10f.
3.10	Effect of any restatements of information provided in earlier reports	p. 4; p. 5; p. 65; p. 67–72; p. 74; p. 76; p. 81; p. 83–84; p. 92–94; p. 96; p. 101 p. 8f.
3.11	Changes in boundaries or measurement methods applied in the report	
3.12	GRI content index	GRI content index
3.13	External assurance	p. 10f.
<b>4. Governance, commitments and engagement</b>		
4.1	Management structure	See 2013 consolidated financial statements; p. 103
4.2	Chairman of the Supervisory Board/CEO	See 2013 consolidated financial statements; p. 6f.; p. 290f.
4.3	Independent and/or non-executive members of the highest governance body	See 2013 consolidated financial statements; p. 290f.
4.4	Mechanisms for shareholders and employees to provide recommendations or instructions to the Board of Management/Supervisory Board	p. 45f.**
4.5	Linkage between compensation for the members of the Board of Management and the second level of management and the organisation's sustainability performance	None
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	p. 32–41
4.7	Determining the Board of Management's sustainability expertise	p. 14–19
4.8	Internal guidelines and regulations	p. 16–23; p32–35; p. 64–71
4.9	Procedures of the Board of Management for monitoring sustainability performance	p. 16–21
4.10	Processes for evaluating the Board of Management's own sustainability performance	p. 51
4.11	Implementation of the precautionary approach	p. 32ff. ; p. 109–112
4.12	Activities borne of agreements or initiatives	p. 42; p. 47–51; p. 54–60
4.13	Memberships in associations	p. 48–51
4.14	List of stakeholders	p. 44f.
4.15	Basis for identification and selection of stakeholders	p. 10; p. 44
4.16	Type and scope of dialogue with stakeholders	p. 44–52
4.17	The organisation's responses to proposals by stakeholders	p. 44–52

<b>5. Management approach and performance indicators</b>		
<b>Sector-specific criteria</b>		
FS1	Policies with specific environmental or social components applied to business areas	p. 16–22; p. 49f.; p. 110–112
FS2	Procedures for assessing and evaluating environmental and social risks in business areas	p. 110–112
FS3	Processes for monitoring customers' implementation of and compliance with environmental and social requirements included in agreements or transactions	p. 30–41 ;p. 110ff.
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business areas	p. 45f.; p. 49f.; p. 75ff.
FS5	Interactions with customers/investees/business partners regarding environmental and social risks and opportunities	p. 46–52; p. 103–107
FS6	Portfolio distribution among business areas by region, customer group and sector	See 2013 consolidated financial statements; p. 103–112
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business area broken down by purpose	p. 103–112**
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business area broken down by purpose	p. 104–113**
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk management procedures	p. 8f.; p. 14–22
FS10	Percentage and number of companies held in the portfolio with which environmental or social issues have been treated at length	Not applicable
FS11	Percentage of assets subject to environmental or social screening	Not applicable
FS12	Policies for dealing with environmental or social issues when exercising voting rights	p. 41; p. 106
FS13	Banking services in sparsely populated or economically disadvantaged areas	Basic access across Bavaria assured by the Savings Banks Finance Group**
FS14	Initiatives to provide access to financial services for disadvantaged people	Not applicable
FS15	Policies for the fair design and sale of financial products and services	p. 37–39**
FS16	Initiatives to enhance financial product literacy by target group	p. 59f.
<b>Economic</b>		
EC1	Direct economic value generated and distributed	See 2013 single-entity financial statements, inside front cover
EC2	Risks and opportunities arising from climate change	p. 16f.; p. 19f.; p. 27f.; p. 91–97; p. 103–105
EC3	Coverage of the organisation's defined benefit plan obligations	p. 70–86; 2013 single-entity financial statements; p. 72
EC4	Significant financial assistance received from government, e.g. subsidies	p. 40f.
EC6	Supplier management	p.49f
EC7	Local employees in management positions	p. 67
EC8	Investments and services provided for public benefit	p. 54–60; p. 99–108
<b>Environmental</b>		
EN1	Materials used by weight or volume	p. 4
EN2	Percentage of materials used that are recycled input materials	p. 4
EN3	Direct energy consumption	p. 4
EN4	Indirect energy consumption	p. 4
EN8	Total water withdrawal by source	p. 4
EN11	Land owned in protected areas	None
EN12	Significant impacts of activities, products and services on biodiversity in protected areas	p. 109–112
EN16	Direct and indirect greenhouse gas emissions	p. 4**; p. 96f.**
EN17	Other indirect greenhouse gas emissions, for instance produced by business travel	p. 4**
EN19	Emissions of ozone-depleting substances	Irrelevant
EN20	NOx, SOx and other significant air emissions	Irrelevant
EN21	Total water discharge	Only sanitary wastewater
EN22	Waste and waste disposal methods	p. 4; p. 93
EN23	Major releases of pollutants	None
EN26	Initiatives to mitigate environmental impacts of products and services, and the results of such initiatives	p. 103–112
EN27	Products whose packaging materials are reclaimed	Irrelevant
EN28	Penalisation of non-compliance with environmental laws and regulations	None

<b>Community work</b>		
LA1	Total workforce by employment type, employment contract and region	p. 4**
LA2	Total number and rate of employee turnover by age group, gender and region	p. 83f.
LA4	Percentage of employees covered by collective bargaining agreements	Depends on the type of the collective bargaining agreement: working-time regulations, for example, apply to all employees
LA5	Minimum notice periods regarding significant operational changes	Not applicable
LA7	Rates of injury and sickness	p. 71f.
LA8	Prevention and risk-control programmes regarding serious diseases	p. 71f.
LA10	Percentage of participation in further training	p. 76
LA13	Composition of Board of Management and employees	p. 4; p. 65–68
LA14	Ratio of basic salary of men to women	Wage category depends entirely on function and not on gender
<b>Human rights</b>		
HR1	Investment agreements that include human rights clauses	p. 103–112
HR2	Percentage of suppliers and contractors that have undergone screening on human rights	100%
HR4	Total number of incidents of discrimination and actions taken	No incidents
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to protect these rights	p. 110–112
HR6	Business activities potentially involving incidents of child labour, and measures taken to help eliminate child labour	p. 110–112
HR7	Business activities potentially involving incidents of forced labour, and measures taken to help eliminate forced labour	p. 110–112
<b>Society</b>		
SO1	Assessment of the impact of operations on communities	p. 17f.**
SO2	Percentage of business units analysed for risks related to corruption	100%
SO3	Number of employees trained in organisation's anti-corruption policies and procedures	100%
SO4	Actions taken in response to incidents of corruption	Not applicable
SO5	Participation in public policy development and lobbying	p. 47
SO8	Punitive measures for non-compliance with laws and regulations	Not applicable
<b>Product responsibility</b>		
PR1	Customer protection	p. 35–41
PR3	Type of product and service information required by law	p. 37f
PR6	Programmes for adherence to laws and voluntary agreements in marketing communications	p. 37f
PR9	Fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not applicable

Application level under GRI: B (self-declaration)

\* Only mandatory indicators are included. Consequently, the numbering is not sequential.

\*\* GRI indicator only partially met.

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