

Guiding Principles for Transformation

30/11/2021

Version 1.0

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1 Introduction

BayernLB pursues an ambitious objective when assuming responsibility for more sustainability. With its commitment dating back more than 25 years, the issues of environmental protection, social aspects and honest corporate governance are firmly entrenched as a common understanding of a sustainable BayernLB.

This is also reflected in our **mission statement**, which guides our actions, much as a compass does.

Mission Statement

- We do not see sustainability just as an irreversible trend but as [the only right path for our society](#).
- We are therefore pursuing the dual goals of a [just and equitable society](#) and [active environmental protection](#) while helping to move the needle towards the Paris Agreement climate targets and keeping them anchored in our present and future operations.
- This approach is reinforced by our [mandate as a public-sector institution](#) as laid out in law and in BayernLB's Statutes.
- We conduct our business in a forward-looking manner as an ["honourable businessman"](#) and make our [social contribution](#) to sustainably [transforming our economic area](#).
- In line with our [commitment to our shareholders](#) as a commercial business, we act based on a [clear concept of risk](#) to achieve suitable returns in accordance with this clearly defined [responsibility for our society](#).

Figure 1: BayernLB's mission statement

At BayernLB we shoulder responsibility for economic, social and environmental developments in our home state of Bavaria and everywhere else we help our customers do business. We firmly believe that we will be more successful as long as all our business processes are guided by the principles of sustainability.

We integrate social and environmental aspects into our financing and capital market products, both we and our customers weigh the risks and opportunities that come with such global challenges as climate change and dwindling resources and thus make an active contribution to sustainable development. In addition to **setting and continuously improving basic social and ecological standards for our financing and capital market transactions**, we set out to serve companies and projects that explicitly tackle these global challenges through, for instance, renewable energy.

In prioritising our courses of action and setting ambitious standards, **we take account of the needs and requirements of our stakeholders**, whom we seek to bring into the conversation. Whenever our partners have conflicting interests, we work to **strike a balance** between these. **National and international agendas like the United Nations Sustainable Development Goals** provide guidance to us.

Without confidence in the integrity and reliability of our Bank, however, we would lack the most important cornerstone for sustained business success. Thus **BayernLB's reputation is an asset which must be protected**. Our obligations go far beyond merely adhering to regulations.

All employees are called upon to exercise propriety and judgement in their everyday work and, in so doing, to uphold a culture that both befits our social responsibility and allows for a sustainable corporate development.

The policies outlined below form a transparent framework for formulating, updating and publishing our corporate values, overarching ethics, environmental and social standards and our stance on controversial issues and sectors.

2 Management approach to sustainability-related issues

BayernLB and each of its subsidiaries are committed not only to complying with the prevailing legal and supervisory regulations (legality objective) but also to self-imposing stricter, more exacting demands that go above and beyond what is legally required, demands that speak to our corporate values, as **guiding principles for our business activities** (legitimacy objective). This is part of the personal responsibilities borne by our managers and employees.

The Sustainability Executive Unit and the **position of Chief Sustainability Officer (CSO), with a direct reporting line to the BayernLB CEO**, play a key role – for the Group as well.

The Sustainability Executive Unit, in exercising its top-level management function, is involved in decisions on all measures that have a material or guiding impact on the issue of sustainability, especially with regard to the **increasing importance of the carbon footprint**. The management approach to sustainability and the related governance extends to all types of processes and transactions and covers both the lending business and all investments arranged by BayernLB.

Not only the Sustainability Executive Unit but virtually all areas of the Group integrate sustainability aspects into their work along the entire value chain.

Scope of application:

Where not explicitly stated to the contrary, all standards, guidelines and policies discussed in this document apply for the following members of the BayernLB Group:

- Bayerische Landesbank Anstalt des öffentlichen Rechts (institution established under public law) (BayernLB), including Bayerische Landesbodenkreditanstalt (BayernLabo), as the parent company
- Deutsche Kreditbank Aktiengesellschaft (DKB) – sub-group
- BayernInvest Kapitalverwaltungsgesellschaft mbH (BayernInvest)
- Real I.S. AG Gesellschaft für Immobilien Assetmanagement (Real I.S.) – sub-group

Given the heterogeneous nature of the Group's business model – not all subsidiaries are financial companies/institutions in their own right – the scope of application is restricted to the above-mentioned subsidiaries. The guidance adhered to voluntarily by subsidiaries beyond this scope are mentioned in this document as appropriate.

These rules ensure that the BayernLB Group takes due account also of the crucial non-financial aspects of its products and services. The standards and policies undergo regular reviews – at least once every two years – that are based on the latest findings,

scientific and otherwise. The Sustainability Executive Unit reviews namely the environmental and social aspects while Group Compliance checks the governance side. The Board of Management then decides whether to clear them for release.

2.1 Framework for our shared comprehension of sustainability

Our **shared sustainability principles**, derived from the BayernLB Group Business Strategy and closely intertwined with the Group’s Risk Strategy, are set out as follows in our Sustainability Strategy, which has been drafted specifically to translate these principles into concrete action.

The **overarching elements** are:

- the 17 global Sustainable Development Goals (SDGs) adopted by the United Nations
- the climate goals of the Paris Agreement
- the Bavarian Sustainability Strategy
- the German government’s Sustainable Development Strategy and
- the goals and standards of the EU Taxonomy.

These elements are flanked by a large number of supervisory/legal provisions. By taking an unequivocal stance and setting standards, we are creating a binding framework along the entire value chain with the aim of establishing a common understanding of the importance of sustainability.

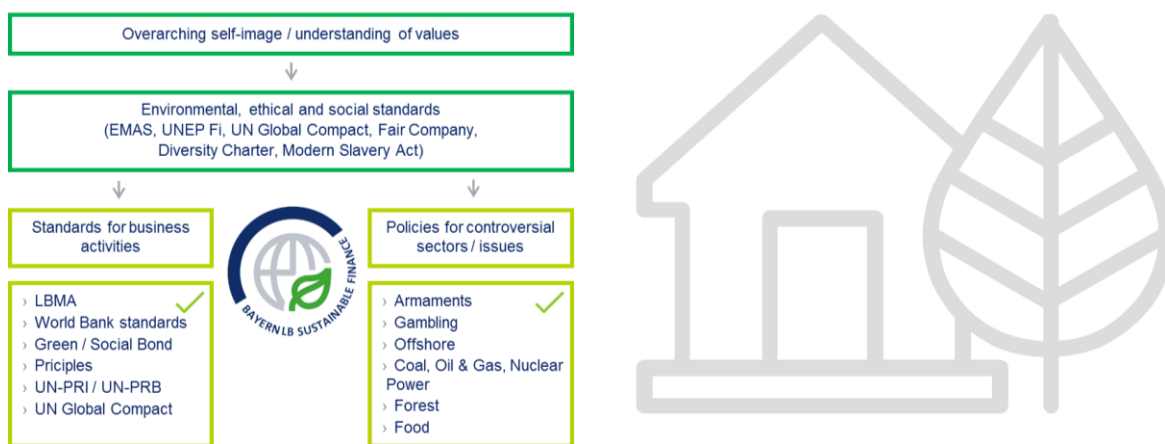


Figure 2: Orientation benchmarks for the Guiding Principles for Transformation

2.2 Approach to managing ESG/reputational risks

Our transformation policies reflect the **BayernLB Group's reputational risk strategy** in concrete terms. They also express our fundamental moral stance and the influence of our collective sustainability principles on the BayernLB Group management.

By taking a clear position and installing policies that are as concrete as possible, **the BayernLB Group has set the parameters for all its business activities**. The overarching goals concerning ESG/reputational risk, established through such means as our Risk Strategy, are as follows:

- In all its business activities, the BayernLB Group sets for itself high fundamental ethical standards that it derives actively (by adhering to the Sustainability Strategy and Guidelines) from ESG criteria.
- In managing the material, significant risks, the ESG risk-drivers are assessed continuously and in an increasingly granular fashion. Climate and environmental risks are analysed and managed especially closely.

By evaluating business relationships and transactions, furthermore, **ESG/reputational risks are kept at bay** and minimised wherever prudent and possible. Thus as part of its holistic approach even on the transaction level, and by taking a risk perspective and answering the questions:

- Do environmental, social or governance issues arise that have a negative impact on a customer's ability to service its debts, probability of default or creditworthiness?
- Does this business activity pose a risk to BayernLB's reputation?
- Is the transaction in question sustainable?
- Does it make a concrete contribution to selected sustainability goals?

the BayernLB Bank examines risks very closely and applies the findings to such activities as strategic portfolio management and transparent reporting.

3 Overarching requirements and constraints

3.1 National and international legislation

We comply with all applicable local, national and international laws. Only in this way can we safeguard our business success.

- United Nations (e.g. UN resolutions/embargoes/sanctions)
- European Union (e.g. EU regulations)
- Federal Republic of Germany (e.g. laws, legal decisions and supervisory provisions)
- Other countries which may be involved (e.g. US federal laws, such as the Dodd-Frank Act or the Volcker Rule, or the UK Slavery Act)

3.2 National and international environmental, ethical and social standards

We ensure that our operations and actions are compatible with all pertinent international environmental, ethical and social standards we have signed up to.

Standard	Details
EMAS	The Eco-Management and Audit Scheme, or EMAS, is the most stringent corporate environmental management system in the world. EMAS is a proven driver of energy and resource efficiency that saves costs and optimises a company's internal organisation. At its Munich campus and two Nuremberg locations BayernLB has enjoyed its validation status under this scheme since 1999 and has been ISO 14001-certified since 2011.
UNEP FI Statement of Commitment	BayernLB has already been a signatory to the United Nations Environment Programme Finance Initiative since 1995. The UNEP is a voluntary commitment at UN level to integrate environmental protection into banking. In 1998 the Group-wide Environmental Policy, which still applies today, was approved by the Board of Management. Since then, it has formed the basis for all measures to improve environmental performance.
UN Global Compact	The UN Global Compact (UNGC) is the world's largest and most important initiative for corporate sustainability and responsibility. By signing the UN Global Compact, companies commit to abiding by the Ten Principles for furthering sustainable developments both in their own country and globally.
Fair Company	Fair Company is the largest, most widely known employer initiative in Germany devoted to fairness in the workplace. The initiative is designed specifically for young professionals and newcomers to the job market. It confers awards to companies that provide young people with fair working conditions and career opportunities.
Charta der Vielfalt (Diversity Charter)	This initiative was started to promote the recognition, appreciation and inclusion of diversity in German corporate culture. Under it, organisations commit to creating a prejudice-free work environment where all employees are valued – no matter their gender, nationality, ethnicity, religion or ideology, disability, age or sexual orientation or identity.
Lieferkettengesetz (Supply Chain Act)	The new Supply Chain Act aims to protect the rights of people who produce goods for the German market. It therefore should serve to improve the international human rights situation.
Modern Slavery Act	British law obliges companies (with branches/participations in the UK) to maintain greater transparency in the supply chain.

3.3 Respect of human rights

Human rights are fundamental. Where human rights are not protected, "civility" is not possible. Especially as a public-law institution, we regard our social mandate indeed as fundamental. For this reason, we make a conscious decision at every turn to

uphold our **responsibility for a just and equitable society along the entire value chain**.

3.3.1 Our stance

BayernLB is expressly committed to protecting human rights. Our stance on this matter stems from internationally recognised human rights standards like the Universal Declaration of Human Rights, the World Bank's Environmental and Social Standards and the international labour standards of the International Labour Organization (ILO).

As a dedicated institution based in Germany, we follow the Guidelines for Multinational Enterprises developed by the Organisation for Economic Co-operation and Development (OECD). This code of practice for businesses contains the recommendations put out jointly by the OECD member countries, covering such issues as human rights, the environment, corruption and transparency. We additionally abide by the UN Guiding Principles on Business and Human Rights.

3.3.2 Implementation at the BayernLB Group

By signing the UN Global Compact in 2021 we have attested also to the resoluteness with which we have for many years been addressing human rights issues, labour standards, environmental protection and corruption. Our pledge is to honour all human rights and to steer away from any action that would contribute to a human rights violation. To this end we adhere to the [Ten Principles](#), both in our dealings with our business partners and throughout the value chain.

At front and centre are the core labour standards in Principles Three to Six. They are a major pillar for ensuring humane working conditions. The 2030 Agenda also puts human rights at centre stage: nearly every one of the seventeen SDGs (Sustainable Development Goals) deals with one or more aspects of human rights. With its effective due diligence BayernLB also helps to promote the SDGs.

Yet due diligence in terms of human rights is also important for the BayernLB Group's risk management. When overlooked, human rights violations can quickly translate into reputational, financial, operational and/or legal risks. Human rights due diligence is becoming increasingly mandatory (see the [German Act on Corporate Due Diligence Obligations in Supply Chains](#)).

And yet it is not only because of lawmakers' growing expectations and our own risk management that we consider it essential to **analyse potential impacts on human rights**. In a world in which investment and financing decisions are tied ever more closely to sustainability criteria and in which living by one's values is gaining in importance over material considerations, a **compelling and impactful approach to human rights issues** is also a means of safeguarding our Bank's future.

It is for all of these reasons that we in the BayernLB Group do everything in our power to protect and promote human rights. The kinds of stakeholders with which we have the most room for manoeuvre are:

1. **Customers**
2. **Employees**
3. **Suppliers and external service providers**

1. Customers

In line with our binding, self-imposed Group requirements, BayernLB does not engage in any transactions involving drug dealing, human trafficking, sexual exploitation, exploitative child and forced labour, slavery, smuggling immigrants, organ trafficking, prostitution, pornography or product piracy.

Basic human rights are protected through national and international laws. At the BayernLB Group we ensure that our customers do not violate any human rights as part of their business activities. All our employees, particularly those in the compliance departments, keep a close eye both on the Bank and its business partners in terms of adherence to all such national and international laws and mandates. The compliance officers thereby especially help BayernLB to fulfil its corporate responsibilities. Among other things, they ensure that it **complies with sanctions and embargoes placed against regimes that abuse human rights while also preventing money laundering and terrorism financing.**

When reviewing individual business transactions and business relationships, BayernLB furthermore researches whether any human rights are at stake and, if so, which ones – e.g. where mining is concerned or as part of a project financing. This can lead to the transaction in question being declined, or even the business relationship being terminated.

2. Employees

BayernLB **respects and supports its employees' human rights.** Over 98 per cent of our employees work in member states of the European Union or the United Kingdom. These countries have already anchored the human rights standards of the UN and the ILO in their legislation.

In addition to abiding by German national law, the **BayernLB Group companies have each institutionalised their own Codes of Conduct ([Code of Conduct](#)).** These requirements, which are binding for all employees, also address human rights issues. By carefully observing these Codes we safeguard our Group companies' integrity and dependability and thereby meet as well **our most important corporate goal: long-term financial success coupled with the fulfilment of our corporate responsibility.** The guidelines clearly articulate existing rules of conduct, thereby providing all employees with a binding framework for acting with integrity – not least with regard to

human rights. The Codes of Conduct apply for all employees in the BayernLB Group without exception, from the members of the Supervisory Board to the junior staff.

As established in the [Diversity Charter](#), we at the BayernLB Group **respect all employees regardless of their gender, nationality, ethnicity, religion or ideology, disability, age or sexual orientation or identity**. In keeping with our diversity management, and as anchored in the Codes of Conduct, the BayernLB Group places a high priority on integrating persons with severe disabilities. The Group's support of equal opportunity for all genders is affirmed in e.g. its signature on the Munich Memorandum for Women in Management and in its unequivocal declaration on its stance regarding queer persons, formulated as part of its Sustainability Strategy.

3. Suppliers and external service providers

One way in which we help to protect human rights in our everyday work at the BayernLB Group is through our selection of suppliers and service providers. Each Group member's Code of Conduct mandates that **human and individual rights** be respected as **fundamental rules of the global community**, and that they expect **their business partners to respect them as such as well**.

The stipulation that **our suppliers meet social standards** is embedded in [BayernLB's Sustainability Agreement](#). Among the obligations BayernLB sets forth in this agreement are as follows:

- Suppliers must ensure the rights of its employees, particularly with regard to occupational health and safety, working hours regulations and health, and prevent discrimination on the basis of skin colour, race, nationality, social background, disability, sexual orientation, political or religious beliefs, gender or age.
- Suppliers shall neither employ, have others employ nor tolerate the employment of persons who cannot prove they are at least 15 years of age or older or who are employed in countries where an exception under [ILO Convention 138](#) is deemed to exist.
- The supplier must not take any action that is conducive to forced labour.
- The supplier recognises its employees' freedom of association and right to collective bargaining.

The Sustainability Agreement also includes the pledge to pass on the standards to their own suppliers and external partners as well.

Adherence to social standards is one of the topics addressed in our regular meetings with our suppliers. These meetings notwithstanding, before we select our suppliers our Group Reputational Risk Management carries out special analyses when warranted. **A breach of the Sustainability Agreement** by a supplier or external service provider **may result in the business relationship being terminated**.

3.4 Minimum standards imposed by and on the Group

The **Codes of Conduct** in the Group and the values and principles they convey form the general, overarching framework conditions and **minimum standards**.

They are flanked by explicitly articulated **exclusion criteria**:

- Business activities with persons or with companies run by persons who have been convicted of bankruptcy or insolvency fraud, serious offences against property or financial crimes
- Business activities connected with illegal forms of business (such as arms, drugs, human/organ trafficking or slavery)
- Business activities connected with prostitution, sexual exploitation or pornography
- Business activities connected with exploitative (child) labour or forced labour
- Business activities that serve to evade and/or reduce duties or taxes or to conceal and/or unfairly and significantly promote such actions, whether in the country of domicile or in a foreign country
- Business activities connected with the intentional breach of copyrights and industrial property rights (e.g. piracy)

3.5 Minimum standards for the banking business as applicable to the individual Group members

On top of the overarching minimum standards imposed by and on the Group, BayernLB has committed to abiding by the following minimum standards for the banking business:

Standard	Details
LBMA (London Bullion Market Association)	The LBMA standards apply to the physical gold trade. They ensure that the gold delivered does not originate from sources associated with money laundering, terrorism financing or abuses of human rights.
World Bank/IFC Performance Standards	Group-wide compliance with the World Bank's and International Finance Corporation's ecological and social standards in all relevant financing, in particular earmarked project financing. The standards include criteria for the observance of human and employee rights, the protection of indigenous peoples, the inclusion and protection of the population (such as local communities) affected by the projects as well as the protection of biotopes and habitats.

Green/Social bond principles	Voluntary guidelines that recommend transparency, disclosure and reporting and thus encourage integrity on the market for green and social bonds, such as the ICMA Green Bond Principles.
Principles for Responsible Investment	Principles set forth by the United Nations (apply to BayernInvest and Real I.S.).
BVI Rules of Conduct	Voluntary standards developed by the German Investment Funds Association (BVI) that go beyond the legal obligations of fund managers. They address their role as trustees, which places particularly high demands on their conduct towards investors (apply to BayernInvest).
Principles for Responsible Banking	The Principles for Responsible Banking (PRB) constitute the most ambitious, solid and expansive initiative for reforming the banking sector. By signing on to the PRB, banks pledge to address sustainability issues in their business strategies (applies to BayernLB and DKB).

The restrictions placed on the banking business apply in the BayernLB Group to **earmarked funds, corporate banking and capital investments**. Earmarked funds refer not only to structured financing (e.g. project or export financing), but essentially to any financing transaction whose purpose BayernLB is aware of. When dealing with earmarked funds, BayernLB adheres to the **Equator Principles**.

For problem exposures undergoing special processing by the pertinent department, a deviation from these restrictions may apply. The main objective when handling these exposures is their restructuring or recovery. The decision on their treatment is taken with the Sustainability Executive Unit or the corresponding unit at the respective Group member.

The specific parameters are laid down in a **series of policies** discussed in the sections below.

The **policies reflect** the respective, topic-related **risk appetite**, especially in controversial business areas, by prohibiting or restricting business activities in advance. In doing so, they **detail the BayernLB Group's Reputational Risk Strategy** as well.

When applying the pertinent policy in corporate banking, a distinction is made between non-customers and existing customers. For **existing customers**, mutual trust and reliability are especially important as these factors help to safeguard the business relationship.

Non-customers are defined as companies and potential business partners with which there is no legally binding contractual business relationship for use of BayernLB's services, or with which any such business relationship ended more than five years ago.

We also consider sustainability issues when looking at (business) transactions. Our actions, as well as our business relationships and transactions, are always guided by ethical principles and sustainability aspects. **We ensure that these are compatible with the relevant international environmental, ethical and social standards we have signed up to.**

3.6 Exclusion criteria for banking transactions

Barred from earmarked financings are projects, including all related goods and services, in areas that

- are designated as UNESCO World Cultural Heritage sites
- are protected by the International Union for Conservation of Nature (IUCN)
- are protected by the Ramsar Convention
- belong to the Arctic or Antarctic
- are designated as a High Conservation Value Forest (HCVF)

4 Fossil fuel policies and the energy sector reform

4.1 Our stance

In light of the climate goals set out in the Paris Agreement and by the German Federal Government, the EU and the Free State of Bavaria, BayernLB considers it essential to **strive towards and promote a low-carbon and sustainable energy sector**.

As a **#Fortschrittsfinanzierer** (financier of progress) we are especially **open to innovative ideas** (e.g. for improving batteries/accumulators, advancing hydrogen-based technologies or for CCUS). The focus remains on expanding renewable energy, which BayernLB has been supporting for years through suitable financing in Germany and abroad. Global energy scenarios published by the International Energy Agency (IEA) show that, as a bridging technology, fossil fuels will continue to make an indispensable contribution to the steady supply of energy – a prerequisite for a prosperous economy – in the short to medium term. In its global report [Net Zero by 2050, A Roadmap for the Global Energy Sector](#), however, the IEA reckons that CO₂ emissions will have to drop by 40 percent between 2020 and 2030 in order for the objectives of the Paris Agreement and the UN Sustainable Development Goals (SDGs) to be met.

In light of the fast pace of political decisions, societal developments and scientific research, especially in the area of climate change and climate policy, BayernLB carries out a **review of the rules documented below every two years or on an ad hoc basis**. The IEA scenarios and how they evolve form a key point of reference here. Among the information that is reviewed is the degree to which the agreed rules aimed at meeting the climate and environment goals are in need of adjustment.

The following **policies on Nuclear power, Oil & Gas and Coal** contain clear expectations for the successful continuation of the business relationship with customers on an equal footing. These are flanked by the concrete implementation of our position on specific topics with exclusion criteria, e.g. for regions, extraction methods, business models or products. For example, we exclude Arctic Drilling, the extraction of oil sands or manufacturers of technologies that are exclusively used in nuclear power plants.

- We require our business partners to submit coal phase-out plans and attach clear criteria to the modernisation of coal-fired power plants, such as a commitment to reduce the absolute share of coal in the company's activities well before 2030.
- We assume that our customers are generally concerned with energy saving, the defossilisation of energy generation and their own contribution to this, and that they adequately avoid lock-in effects when using transition technologies.
- It is also important to us that customers share our understanding of the protection of nature and people or society and have therefore established or are

introducing appropriate initiatives and measures. They must respect protected areas and take into account the interests of local residents and employees.

4.2 The BayernLB Group's Nuclear Power Policy

(Policy in its present form valid from 01.10.2019)

- **Scope**

This policy, which came into effect on 1 October 2019, covers the construction, operation and decommissioning of nuclear power plants, the treatment, intermediate storage and disposal of waste from nuclear power plants and the mining and extraction of nuclear fuel.

- **Parameters:**

- Exclusion criteria**

Barred from earmarked financing are

- projects, including all related goods and services, for mining and/or extracting nuclear fuel.
- projects for building new nuclear power plants, including all related goods and services, or for ensuring the continued operation of existing nuclear power plants.

The policy furthermore bars from financing non-customers who in the previous financial year generated 100 percent of their sales from products/services used in fields which are barred from financing by this policy. Such non-customers include manufacturers of technologies that are used exclusively in nuclear power plants.

- **Nuclear power plants**

Earmarked financing is permissible for

- projects for promoting the safety (statutory requirements) of nuclear power plants currently in operation.
- investments in replacements to comply with the highest safety standards.
- projects for decommissioning nuclear power plants.

- **Nuclear waste**

Funding may be earmarked for projects for the treatment, intermediate storage or disposal of nuclear waste subject to their compliance with applicable rules in the countries of origin, transit and destination.

- **Our stance**

In 2017 about ten percent of the world's electricity came from nuclear power. In 2020 there were 442 reactors in operation worldwide, six of which in Ger-

many. That same year, around 11 percent of the country's electricity was produced through nuclear energy.¹ Not least the events at Fukushima, Japan, have demonstrated that nuclear power is a high-risk technology with hard-to-ascertain consequential risks.

In the aftermath of the Fukushima meltdown, the German federal government decided in March 2011 as part of an atomic power moratorium that all 17 German nuclear power plants should undergo safety checks and that the seven most elderly plants be shut down for three months.

At the end of May 2011 the federal government then decided that all nuclear power plants would be taken off the electrical grid by 2022. On 30 June 2011 a majority of the German parliament decided in favour of phasing out of nuclear power, a decision that was unanimously confirmed on 8 July by the Federal Council, i.e. with the approval of the Bavarian state government.

Germany is not alone in facing the unresolved problem of final disposal of waste from nuclear power plants. To date, nowhere in the world is there a permanent repository for highly radioactive spent fuel in operation. The storage of lower-level radioactive waste is problematic as well. The risks of improper storage are evident from problems at the German research mine for low and medium-level radioactive waste in Asse.

Accordingly, **BayernLB will be living up to its social responsibility** by focusing on finance to ensure the highest operational safety standards at nuclear power plants currently in operation, the safe decommissioning of shut down nuclear power plants, as well as the safe treatment, storage and disposal of nuclear waste. The framework for this is laid down in this Nuclear Power Policy.

4.3 The BayernLB Group's Coal Policy

(Policy in its present form valid from 01.01.2022)

- **Scope**

This policy applies to all financings, financial products and transactions, as well as all capital investments, in the BayernLB Group. It also applies to all coal types and to the entire coal value chain, e.g.:

- exploration and extraction
- trading, purchase/sales
- use, delivery and storage
- tapping of coal deposits
- construction and operation of the requisite facilities

¹ Source: Statista (2020), <https://de.statista.com/statistik/daten/studie/190298/umfrage/stromerzeugung-weltweit-nach-energietraegern-seit-1998/>; <https://de.statista.com/statistik/daten/studie/28688/umfrage/anzahl-der-atomkraftwerke-weltweit/>; <https://de.statista.com/statistik/daten/studie/186652/umfrage/anteil-der-atomkraft-an-stromerzeugung-in-eu-laendern/>

- decommissioning of coal-fired power plants and related transactions/services

An exception to this is coal used e.g. in the chemical, medical or steel construction sectors for which no technical alternative exists, such as is the case with coking coal, coal by-products or lignite-based substrate used in agriculture. However, even this exception is subject to regular talks with the companies on any new, innovative methods or technologies.

The policy thus focuses on “thermal coal”, which is used for producing electricity or heat. It is aimed at companies that use coal themselves or through participations. For this reason, utilities that add purchased coal-generated electricity to their mix but do not engage in any other coal-related activities do not fall under the policy.

The policy also covers all types of coal-mining companies.

- **Parameters**

- **Existing customers**

BayernLB continues its existing business relationships only as long as coal does not make up more than 30 percent of the customer’s revenues or own power generation. In 2025 this threshold will be lowered to 25 percent, and in 2030 to five percent.

- **Non/New customers**

BayernLB enters into new business relationships only as long as coal does not make up more than 20 percent of the customer’s revenues or own power generation. In 2025 this threshold will be lowered to 10 percent, and in 2030 to five percent.

- **Existing/New customers**

For (new) customers with a higher threshold, funding may be earmarked if their energy is not sourced from fossil fuels or nuclear power. Transactions tied with the decommissioning of coal activities or coal-fired power plants are also permissible.

- **The customers in question submit a credible coal exit plan.**

- **Limits to modernising or retrofitting coal-fired power plants**

Transactions dealing with the modernisation or retrofitting of coal-fired power plants and all the associated goods and services are ruled out. In the interest of helping (non)customers to transition, and in pursuit of a socially and economically equitable energy reform, transactions dealing with the modernisation or retrofitting of coal-fired power plants are possible in certain cases with companies that have a (scientifically) viable coal exit plan (e.g. in line with the

SBTi and the Paris Agreement on climate change). However, this is subject to the following minimum requirements:

- credit term ending no later than in 2030
- unequivocal pledge to phase out coal by 2030
- pledge to reduce the absolute share of coal in the company's activities well before 2030
- proof of a diversification strategy

- **Exclusions**

Financing for coal mining of any kind outside Germany is impermissible.

Barred from earmarked funding is/are:

- new coal-fired power plants and capacity expansions for existing plants, including all associated goods and services
- lignite and hard-coal mining (including mountaintop removal) and all associated goods and services
- all modernisations of existing bituminous coal mines or lignite surface mines
- transactions tied to a coal infrastructure (especially coal-transport infrastructures like rail lines or lading ports)
- coal trading

• **Our stance**

By 2040 the global share of fossil fuels must be reduced by 50 percent as compared to 2020. This requires decommissioning at least the low-efficient coal-fired power plants by 2030 and removing all such power plants from the grid by 2040.

This strategy was enshrined in the Global Coal to Clean Power Transition Statement and in the declaration "Supporting the Conditions for a Just Transition Internationally", [both signed by the Federal Republic of Germany](#) during the COP 26 summit. Among the terms agreed upon are as follows:

- By the 2030s the utilities sector shall be largely decarbonised (in the major economies), and by the 2040s (or as soon as possible thereafter) completely decarbonised globally, in line with the goals of the Paris Agreement.
- Coal-fired electricity shall be phased out more quickly, and no new coal-fired power plants shall be approved or built.

The extraction and use of coal is especially impactful on the environment and climate. For example, CO₂ emissions from coal-fired power plants are usually well above those from gas-fired plants. Opencast mining of lignite leads to massive interference with the landscape and the habitats of people, animals and plants. In coal-mining regions the groundwater, air and soil are plagued by compromised quality. Working conditions there are reportedly poor, and

the local populations, especially indigenous persons, are often forced to leave or give up ownership of their land. To minimise the negative impacts of extracting and using coal, this Coal Policy defines standards for coal-related transactions (including capital investments in the BayernLB Group).

4.4 The BayernLB Group's Oil & Gas Policy (Policy in its present form valid from 01.10.2019)

- **Scope**
The policy covers the exploration, extraction and refining of oil and gas, the construction and operation of the requisite facilities and infrastructure, the use of oil and gas in power plants, as well as the transport of raw materials, in particular via pipelines and shipment by sea.
- **Parameters**
 - **Exclusion criteria**
Barred from earmarked funding is/are
 - transactions connected with
 - extracting crude oil from tar sands
 - natural gas and/or oil by hydraulic fracturing (fracking)
 - new construction of transport infrastructure (e.g. pipelines) used to transport oil or gas which is extracted either solely by using extraction methods that are barred from the financing policy or in regions that are barred from financing under the policy, including provision of all related goods and services
 - new construction of processing plants (e.g. refineries and LNG terminals) used to process oil or gas which is extracted either solely by using extraction methods that are barred from the financing policy or in regions that are barred from financing under the policy, including provision of all related goods and services
 - new construction of oil-fired power plants (generating power from oil) within the countries of the European Union (EU), in the European non-EU countries of Iceland, Norway, UK and Switzerland and in North America (USA and Canada). From 1 January 2025, the construction of new oil-fired power plants will be excluded worldwide from earmarked funding.

Once the policy comes into effect, new customers who derived 100 percent of their revenue in the previous financial year from products/services used in areas prohibited by this policy will be excluded from financing. These include, for example, manufacturers of machines used solely for extracting oil sands or for drilling in the Arctic.

As at 1 January 2025, non-customers who generated ≥ 30 percent of their sales in the past financial year by generating power from oil and/or extracting and

processing oil and/or gas using extraction methods barred under this policy will be barred from financing.

- **Utilisation**

Earmarked funding for the construction of new oil-fired power plants outside the above-mentioned countries is permitted for a transitional period, provided the power plants use state-of-the-art technology. This transitional period will end on 31 December 2024.

• **Our stance**

In the scenarios currently drawn up by the IEA (International Energy Agency), gas enjoys a certain special status as a comparably climate-friendly fossil fuel as it is recognised as an important, ancillary source of energy even for the long term. For example, gas power plants are regarded as a relatively climate-friendly alternative to coal-fired power plants.

Nevertheless, the extraction of gas can have a major impact on the environment and the climate if problematic extraction methods are employed or the extraction is carried out in regions particularly in need of protection. The same applies to the extraction of oil. To minimise the negative impacts of extracting and using oil and gas, this policy defines standards for related financing.

5 Corporate citizenship

5.1 Our stance

Good entrepreneurship means taking **responsibility for society**. BayernLB has anchored this philosophy in its [Code of Conduct](#) and applies it in its business relationships, when developing products and services, in its treatment of its employees, by helping to protect the environment in its corporate capacity, and through its philanthropic engagement.

By supporting local social, cultural, scientific and sports projects and initiatives, we look to empower our local communities. We pursue our goals in compliance with all legal regulations and in express consideration of all human rights, whereby, as far as BayernLB is concerned, these requirements pose bare minimum standards.

Under its public remit, BayernLB is entrusted with a particular **responsibility for sustainability**. We therefore take an **active role in promoting sustainability both as an end in itself and as a means of achieving other objectives**. We conduct our business in a forward-looking manner as an “honourable businessman” and make our social contribution to sustainably transforming our economic region.

5.2 The BayernLB Group’s Offshore-Policy

(Policy in its present form valid from 01.12.2020)

- **Scope**
Bayerische Landesbank has relationships with numerous large and medium-sized (Mittelstand) corporate and real estate customers in Germany and worldwide. The services these customers demand also include financial services that may have a connection with offshore destinations. Transactions with an offshore connection are standard market practice in many areas of the economy, especially for internationally active companies, and are not inherently illegal. Experience shows, however, that transactions with an offshore connection also harbour an increased risk of being used for illegal purposes, such as money laundering or tax evasion. An offshore connection arises when customers or business partners are domiciled in offshore countries or transactions are processed via offshore companies or offshore countries.

This Policy therefore aims to create a clear and binding scope for business activities of the BayernLB Group which have a connection with “offshore countries”, in order to avoid as far as possible BayernLB becoming (unintentionally) involved in transactions with an illegal background.

- **Delineation / Definitions**

There is no generally accepted (comprehensive, international, binding) definition of offshore countries or list of which countries should be regarded as offshore. The German authorities have not yet produced such a definition/list either. BayernLB derives its definition principally from the attributes and assessments produced by the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD).

- Offshore countries are usually designated as jurisdictions which generally display a combination of the following attributes:
High degree of anonymity and discretion (banking secrecy, information from registers)
- Moderate to low banking supervision, possibly in combination with lax checks/audits
- Large number of banks and financial institutions located in the country which primarily operate on behalf of non-residents
- Financial systems with a disproportionately high amount of assets or loan portfolio from abroad compared with domestic financial intermediation to fund the domestic economy
- Low tax rate (low income tax and/or wealth tax), no or few tax agreements
- Often politically very stable/predictable jurisdiction with low geopolitical importance

Offshore financial centres are sometimes a specific jurisdiction (e. g. a customs union) or the regional focus of a jurisdiction (e. g. a region or local authority) where the above-mentioned attributes cause greater numbers of market participants to settle.

Offshore companies usually conduct all or most of their business outside their country of residence and thereby usually enjoy a lower tax rate or other benefits in the country of residence (offshore country). BayernLB has compiled a country list (**Compliance Country List**) to inform the Bank's business units about Compliance's risk assessment of a country, which procedures are to be followed and which transactions are possible. The risk assessment includes national and international sanction rules and assessments of money-laundering and corruption risks.

Additionally, BayernLB at the moment has created a list of 67 offshore countries, divided into **two offshore lists** ("List of blocked offshore countries" and "List of permitted offshore countries"). The currently applicable versions of the offshore lists form part of this Policy. They regulate business exclusions and additional process requirements regarding Compliance and Know Your Customer (KYC). The offshore lists are submitted by Group Compliance to the Board of Management for approval.

- **Parameters**

BayernLB does not provide assistance in any business relationships/activities where money laundering, tax evasion or any other criminal use of offshore companies are present or, based on concrete evidence, suspected. We only enter into business activities with an offshore connection (where legal) if the customer so desires and this is market practice in the industry in question or if we cannot offer competitive products without an offshore connection.

As such, BayernLB's business policy is not specifically geared towards using offshore locations. BayernLB fulfils all obligations to cooperate concerning the taxation of third parties. It fulfils legal disclosure and reporting obligations and provides the information required for tax transparency.

BayernLB does not provide customers with offshore companies either directly itself or indirectly. Nor does it refer business to service providers or law firms specialising in this area. The acquisition, foundation or creation of shareholdings, foundations or trusts (e. g. for securitisation transactions) in offshore countries or offshore financial centres – where necessary, in individual cases, for reasons of business policy – must be approved by a separate decision of the Board of Management, which must also be referred to the Supervisory Board. The resolution must also include an opinion from Compliance.

The Compliance country list and the offshore list are binding for the business. This ensures a risk-based approach and limits business relationships involving offshore countries.

- **Our Stance**

BayernLB takes care that it does not enter into unlawful transactions, avoid any taxes or duties, or breach its obligations to cooperate. We also check the identity, integrity and credit standing of our customers and business partners, conduct regular due diligence and ensure we are not being misused for illegal business practices, such as the financing of terrorism, money laundering or other criminal acts (BayernLB [Code of Conduct](#)).

This Offshore Policy, together with the superordinate framework instructions, explicitly excludes business activities intended to avoid and/or reduce duties/taxes or conceal and/or provide an unfair advantage to such activities in Germany or abroad.

To prevent money laundering, BayernLB follows the risk-based approach recommended by the FATF (Financial Action Task Force). This approach uses various parameters, including country risk and business purpose for risk classification, in order to control processes, monitor activities and set conditions, e. g. (heightened) due diligence. The aim of this risk-based approach is to focus attention and security measures on risk, i.e. particularly the areas with the greatest risk.

We strive to comply with all legal obligations and prohibit criminal activities (e. g. money laundering, tax evasion), where we are aware of and able to do this.

5.3 The BayernLB Group's Gambling Policy

(Policy in its present form valid from 12.01.2016)

- **Scope**

With its legal definition varying from country to country, gambling is subject to different legal standards and court rulings. In Germany it is defined and regulated by the (First Amending) State Treaty on Gambling (GlüStV / 1. GlüÄndStV). The treaty defines gambling as any activity

- by which money / something of value is provided in exchange for an opportunity to win a game
- whose outcome is based mostly or entirely on chance and
- not chiefly on the player's aptitude or attentiveness, or
- for an opportunity to bet on the occurrence or non-occurrence of a future event.

In this policy the term "gambling industry" extends to ancillary service providers (such as of electronic payment methods tied to online games of chance) insofar as the product or service helps or enables to a large or decisive extent the game of chance to take place; at least 30 percent of the service provider's revenues must come from these gaming or gambling transactions.

- **Parameters**

BayernLB shall not engage in any business activities in the gambling industry. There is, however, one exception:

- The gaming or gambling activity serves a "basic human risk-taking instinct" and
- This instinct is satisfied by a public or non-profit organisation (e.g. Aktion Mensch).

Gambling may take place only in conformity with the applicable legal authority, e.g. with EU law, national law, state law or court rulings. Any legal uncertainty in this regard shall preclude business activity by BayernLB. Gambling products or services may serve only as a way for the player to pass the time or for short-term amusement; it must not serve as a means of income. Consumer protection laws must be complied with at all times, and demonstrably so, by:

- preventing addiction through such measures as
 - limiting the duration of the game
 - limiting the wager amount/value
 - limiting the value of the highest prize (ideally excluding a jackpot)

- limiting the number of game cycles / frequency of prize disbursements
 - extending the period between the wager and the prize disbursement
- protecting the player from losing assets due to carelessness
- protecting the player from game-rigging or fraud
- protecting minors

- **Our stance**

Due to the natural instinct to engage in risk-taking, games of chance have existed for thousands of years. For most people, gambling is a form of amusement one might engage in in their spare time. For some people, however, it can become an uncontrollable addiction or a means of making money. It is not least because of this potential for addiction that gambling has in many societies been, and continues to be, considered immoral or at least ethically dubious. Sustainable investors therefore categorically exclude investments tied to the gambling industry.

Historically, the views and actions taken by governments with regard to gambling have changed repeatedly. Even today, federal and state laws vary, meaning that there is no clear position on, or consistent regulation of, gambling in Germany.

As gambling is a natural social phenomenon, there needs to be a specific legal framework to provide effective consumer protection. This would hamper unregulated, illegal gambling and the significant fraud risk it harbours. At the same time, it wouldn't make sense to have an oversupply of gambling products and services as an incentive for people to start gambling or for casual players to gamble more extensively. Basic gambling needs can already be met by the state.

These state products and services furthermore ensure (most likely more than the other providers) that

- maximising profits is not the main priority, and that profits flow through the state budget for the common good
- sufficient measures for staving off addiction, money laundering, fraud etc. are taken.

5.4 The BayernLB Group's Armaments and Weapons Policy

(Policy in its present form valid from 01.02.2021)

- **Scope**

Armaments:

- Weapons designed for use as a means of violence in armed conflicts within or between countries or between individuals.
- Weapons designed for warfare as defined in the [War Weapons Control Act](#)
- Controversial/prohibited weapons and their key components
- Small arms and light weapons (SALW)
- (Missile) defense systems
- Weapon-like systems, weapon carriers and weapon training systems
- "Modern warfare" weapons, such as "e-bombs" and particle beam or laser weapons
- Robots and drones – unmanned land, aerial or underwater vehicles that are remote-controlled or run (partly) autonomously for military use, such as for reconnaissance, exploration, combat, demolition or rescue and search missions
- Dual-use devices – material, machines or machine parts, also software or any technology that can be used both for civilian and military purposes in the sense of a dual use – with presumed military use
- Spare parts, necessary accessories, (key) components (especially electronic parts for engines and weapon systems) of armament weapons
- Production licenses for armament weapons
- Infrastructure measures for armament weapons, such as an arms factory or a military base
- Tools or equipment not limited to civilian use and which is procured by or on behalf of a military authority.

Arms companies:

For the purpose of this policy, a company is deemed to be an "arms company" if it or a company in its group of companies engages in the armament weapons industry, with this area of business accounting for more than 20 percent of its total revenues².

Engaging refers in this context to the following: research and development; (licensed) production/manufacturing; purchasing, selling, trading, delivery, storage; military-related services such as technology transfer, service or operation. Excepted from this definition are measures for recovering armament weapons and permanently destroying them or rendering them harmless.

² The source for this being the most recent "SIPRI" listing on the internet (assuming the company is listed there – otherwise as based on own documented calculation)

Arms financing:

In this policy the term “arms financing” refers to any line of business (including the guarantee and L/C business) that is conducted in connection with armament weapons and/or arms companies. This applies whether an arms company receives overall financing (such as general working capital financing) or financing for a specific transaction involving an armament weapon.

- **Parameters**

BayernLB shall not engage in arms financing. Any business relationships with arms companies or transactions conducted in connection with armament weapons are therefore subject to the prohibitions and/or orders issued in this policy.

Armament weapons financing is strictly prohibited. BayernLB shall not enter into any new business relationship with an arms company. BayernLB shall continue maintaining an existing business relationship with an arms company only if the company’s **armaments operations** are insignificant and do **not account for more than 20 percent of its revenues**. In business relationships with companies whose armaments operations account for more than 20 percent, no expiring transaction shall be renewed or replaced (expiry of the business relationship).

- No armament weapons shall be indirectly subsidised in the form of a general working capital loan/financing.
- No commissions, offset services or other compensation payable in connection with an arms transaction shall be fostered or financed.

The enlistment of the Sustainability Executive Unit (sustainability and reputational risk) and the Group Compliance Division (sanctions), or the corresponding unit at the respective Group member, is mandatory. The approval of these units is mandatory; a negative vote may ensue, if the current facts render this necessary, regardless of whether all the requirements cited have been fulfilled.

- **Our stance**

BayernLB generally acknowledges the right of a national sovereignty to protect its citizens as an installed defense capability can contribute towards maintaining peace. However, the Bank will refrain from conducting new transactions in armament weapons financing so as to keep its business strategy aligned with its sustainability objectives. Company financing transactions, moreover, are also subject to the strict requirements and guidance of this policy.

6 Natural habitats and biodiversity

6.1 Our stance

Numerous plans for action and a wide array of measures are in place for helping Europe **transition pro-actively to a low-carbon, more lifecycle-oriented economy**. One of the principles that the European Commission has anchored in its plan for financing sustainable growth is that the financial sector must play a central role. The financial industry has therefore established a set of ESG factors and criteria, in close keeping with the SDGs. The BayernLB Group has adopted these ESG standards.

They apply first and foremost to **protecting and conserving biological diversity – the diversity of life** in all its forms, including genetic diversity and the diversity of species and ecosystems, and its ability to change and evolve. This is the essence of what it means to act sustainably. The components of biological diversity as set out in the [Convention on Biological Diversity](#) are all ecosystems and habitats, species and populations, and genes and genomes of social, economic, cultural or scientific significance.

The **World Bank Performance Standards** reflect the mission of the Convention on Biological Diversity, namely to conserve biological diversity and promote the long-term use of renewable natural resources. As a bank, BayernLB also explores ways in which threats to biological diversity resulting from its operations and those of its customers and other stakeholders can be avoided or lessened, and ways in which renewable natural resources can be cultivated.

In addition to biological diversity being crucial for society, many companies are simply dependent on nature. Agricultural enterprises could not thrive without enough insects to pollinate plants and organic matter to fertilise soil. Wood is important for sustainable construction. In the field of real estate and especially in the context of sustainable, future-oriented construction, natural raw materials such as wood play an important role. Food companies and the pulp and paper industry depend on the availability of water. These few examples already give an idea of how strong the dependencies are in this overall system. If biological diversity continues to disappear at the current rate, the companies affected will be put at an increasing risk. BayernLB will also face these challenges. We want our customers to do business sustainably and develop well in their sectors. But under the condition that **our natural environment and habitats are preserved**. BayernLB must meet the challenge of **managing risks related to the loss of biodiversity**. This is how we plan to help and empower our customers in conserving and protecting biodiversity when conducting their business operations.

Furthermore, there is a close correlation between the loss of biodiversity and climate change. Climate change is one of the main diminishers of biological diversity as rising temperatures can lead to the destruction of entire ecosystems. By the same token,

biological diversity can greatly mitigate climate change. The positive effects of peatlands for climate protection, for example, should be mentioned here. Also putting a halt to the destruction of vast swaths of rain forest is one way of protecting species diversity while also combating climate change. Especially when combined with other measures for reducing greenhouse gas emissions. See also section 4 “Fossil fuel policies and the energy sector reform”.

Our Forest Policy, which is listed below, imposes numerous requirements on companies from the timber, palm oil and soy industries in connection with credit and trade financing. Our expectations of customers in this context are:

- Companies that produce wood in high-risk countries must have their wood production certified as completely as possible, and as a minimum to a demonstrably increasing extent, with a written target and schedule in accordance with the FSC, PEFC or other comparable certification approved by the PEFC (endorsed national standards). Countries with increased risk include particularly the producing countries organised into the International Tropical Timber Organization (ITTO), but also Russia and other eastern European countries. For projects located in countries classified as Designated Countries as part of the Equator Principles, compliance with national legislation is considered sufficient proof of compliance with suitable environmental and social standards.
- Companies that trade in wood and wood products have to ensure that imports meet the requirements stipulated in the European Timber Regulation / EUTR or the German Timber Trade Protection Act (Holzhandels-Sicherungs-Gesetz / HolzSiG). This bans the import and trading of illegally logged wood and its resulting products and requires companies to comply with certain duties of care. This includes a duty to provide information on the type and origin of the wood and the process for assessing and reducing the risk that the wood can stem from illegal logging. Setting up a traceability system based on a recognised certification system (FSC, PEFC) is particularly reliable proof of compliance with the defined requirements.
- Companies that operate palm oil plantations and/or factories that produce palm oil must be a member of the Roundtable on Sustainable Palm Oil (RSPO) either themselves or via their parent company. They must have certified the relevant plantations or plants in accordance with RSPO or must present a plan detailing the schedule and the steps in which certification will be completed. For projects located in countries classified as Designated Countries as part of the Equator Principles, compliance with national legislation is considered sufficient proof of compliance with suitable environmental and social standards
- Companies that operate soya plantations must be a member of the Round Table on Responsible Soy (RTRS) either themselves or via their parent company. They

must have the relevant plantations certified in accordance with RTRS or must present a plan detailing the schedule and the steps in which certification will be completed. For projects located in countries classified as Designated Countries as part of the Equator Principles, compliance with national legislation is considered sufficient proof of compliance with suitable environmental and social standards.

6.2 The BayernLB Group's Forest Policy

(Policy in its present form valid from 08.08.2017)

- **Scope**

This policy covers

- The clearing of land for plantations to grow wood, oil palms or soya by chopping down protected forests or those worthy of protection, particularly primary forests
- The production of wood as part of managing forests and plantations
- The production of palm oil and soya
- Trade with raw wood and wood products

The goal of the policy is to ensure in particular that:

- No transactions related to illegal deforestation are carried out
- No forested areas that are protected or worthy of protection are destroyed when clearing land for plantations, especially to cultivate palm oil and soya
- Recognised environmental and social standards are complied with in the management of forests and plantations, especially of palm oil and soya plantations

By referring to existing environmental and social certifications, BayernLB helps raise sustainability standards in the sector.

More specific restrictions can be found in section 7.2 "Conservation of natural habitats and biodiversity".

- **Exclusion criteria**

BayernLB has barred the following companies and projects from its financing:

- Companies which are proven to be involved in the deforestation and/or trade with tree species that fall under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
- Companies that are proven to be involved in illegal logging or trade with wood from illegal logging
- Companies that do not explicitly exclude the uncontrolled and/or illegal use of fire in their forests or plantations for slash and burn farming by establishing a commitment in this respect, such as a policy

- Companies which are proven to, in acquiring forest land for cultivation or enlarging already cultivated forest land or plantations, **forcibly displace or to have forcibly displaced the respective inhabitants or indigenous persons**; BayernLB does permit business relationships with such companies, however, provided that the World Bank standards / Equator Principles apply for the project concerned
- **Companies that are proven to violate or to have violated labour laws / human rights when cultivating forests or plantations**, e.g. by imposing forced labour and/or child labour, or by applying violence or having it applied
- Projects in which primary forests are converted into timber plantations, pastures or arable land, or for other uses

Credible reports by independent government and/or civic organisations or relevant media reports which can be called up from the RepRisk database, for instance, are considered evidence of violations.

- **Our stance**

Forests are very important for ensuring biodiversity. More than two thirds of all known species living on land live in forests. Of particular importance according to the WWF are the tropical rain forests which only cover seven percent of the land surface area but are home to more than 50 percent of all the animal and plant species in the world. The Food and Agriculture Organisation (FAO) estimates that forests worldwide store more than half the total fixed carbon on the planet. According to the WWF, **forests contain 20 to 50 times more carbon in their vegetation than other ecosystems.** This is why forests are also referred to as CO₂ sinks. The WWF estimates that 20 to 25 percent of global greenhouse gas emissions result from deforestation, the EU and UN say around 20 percent. And since the trees cut down can no longer serve as CO₂ sinks, the negative impact on the climate is even worse.

Many of the 300 to 400 million people around the world who are counted as indigenous people by the organisation OroVerde live in forests and depend on them for example for hunting. Illegal deforestation and the associated damage to animals and plants is destroying their livelihood and forcing them to leave their home area or find other means of sustenance. The related **destruction of cultural and religious sites sacred to the indigenous population is also a major problem** that human rights organisations in particular point to regularly.

Illegal logging is the entire process of cutting, transporting and selling or buying wood in violation of national or international laws. Germany's Thünen Institute reckons that two to five percent of the wood brought into the country is the product of illegal logging. Illegal logging is usually linked with corrup-

tion, for example in terms of granting usage rights for forested areas or falsifying customs documents. At the same time, private owners of the wooded areas and the government miss out on a large amount of (tax) income. The World Bank estimates that illegal use of wood is responsible for a loss of between USD 10 and 15 billion in private and government income. Illegal logging hurts the competitiveness of legal forestry in both the exporting and importing countries. For example, the WWF says that illegal logging depresses world timber prices by between seven percent and 16 percent.

The **United Nations Environmental Programme (UNEP)** points to the role of illegal logging in financing armed conflicts. Like conflict minerals, wood is considered a conflict commodity here, i.e. the proceeds from the sale of the illegally logged wood are also used to fund armed conflicts.

Illegal logging in order to clear forest land for plantations to cultivate palm oil and soya poses a serious problem. Since the **oil palms** require a typical rain forest climate, their cultivation has to compete for space with the rain forest. There are a host of social and environmental problems associated with cultivating palm oil, such as higher pollution due to the use of agricultural chemicals, poor working conditions in the plantations e.g. forced/child labour and land usage conflicts with local farmers. The same applies to clearing forest land in order to grow **soya**. Here too additional forest land is often cleared by deforesting woodlands worthy of protection. Around 80 percent of the soya produced worldwide is used in the production of animal feed. With a view to the extensive negative impact of harvesting and trading wood and cultivating palm oil and soya, **BayernLB pushes the relevant companies to comply with recognised social and environmental standards.**

The central point of reference is the existing certification and traceability systems, which define the social and environmental standards for cultivating and trading wood, palm oil and soya. There are currently two major international forest certification schemes: the FSC (Forest Stewardship Council) and the PEFC (Programme for the Endorsement of Forest Certification Schemes). Both of them have systems to ensure the traceability of where wood comes from. The Roundtable on Sustainable Palm Oil (RSPO), which the WWF set up in 2004, has defined social and environmental standards for palm oil. The Round Table on Responsible Soy (RTRS) pursues the same goal for harvesting and processing soya.

6.3 The BayernLB Group's Food Policy

(Policy in its present form valid from 08.08.2017)

- **Scope**

This policy lays down the minimum requirements for the BayernLB Group's products, services and own investments involving agricultural commodities, specifically staple foods.
- **Parameters**
 - **Price hedging on the agricultural futures market**

The BayernLB Group's products for hedging the prices of agricultural commodities are focused on the needs of agricultural holdings, mills, bakeries and comparable market participants and, rather than being used for speculation purposes, serve to hedge physical underlying transactions.
 - **Speculation with staple foods**

The BayernLB Group does not conduct any speculative transactions in relation to basic foodstuffs. In this vein the Group does not invest directly in staple foods, nor indirectly in derivatives which replicate or speculate on the price performance and/or shortages of staple foods. Furthermore, it does not offer any investment products which replicate or speculate on the price performance and/or shortages of staple foods. In addition, the BayernLB Group does not provide any financing for speculative transactions with staple foods.
 - **Capital investment products**

BayernInvest does not invest in food commodity exposures in actively managed mandates and funds. This also applies when managing its own retail funds, from which agricultural commodities and related derivatives are excluded. All retail funds managed or administered by BayernInvest are in fact subject to this restriction.
- **Our stance**

Financial products for hedging price risks for producers and purchasers of goods have implications for the real economy. Farmers sell their autumn crops in the preceding spring in order to have price security. The buyers or investors active on these markets bear the risk of falling prices. Since the beginning of the 2000s, an increasing amount of capital has flowed into this market segment, which speculates on food price changes. These futures trades outstrip their respective underlying transactions, which are based on the real economy, many times over. Critical non-governmental organisations (NGOs) such as Brot für die Welt and Oxfam blamed this speculation for prompting price fluctuations in foodstuffs. These fluctuations are reported to have caused food supply bottlenecks in developing countries that, in 2008 for example, affected around 100 million people worldwide, according to the NGOs.

After much debate, numerous banks decided and announced that they would no longer sell products used for speculating on food scarcity and/or food price changes. Some banks are extending the scope of their policies to include food and agricultural commodities.

The MiFID II Directive (Markets in Financial Instruments Directive), rolled out in April 2014, and the related Implementation Regulation (Markets in Financial Instruments Regulation, or MiFIR), effective from January 2018, deal with this topic. MiFID II imposes position limits on financial investors in commodity markets so as to discourage speculation on agricultural commodities, especially foodstuffs.

In addition the directive allows a general preventative ban on financial products that pose a risk to financial or goods markets. Although various NGOs criticise the implementation of the directive as insufficient, it shows the political will to combat speculative transactions with foodstuffs.

BayernLB retired its hedging activities for agricultural commodities in 2013 with a particular view to protecting its reputation. In 2012 the supervisory committees of BayernInvest and BayernInvest Luxembourg S.A. resolved to no longer invest in agricultural commodities in their own retail funds managed by the latter. This policy combines this day-to-day practice and the relevant resolutions into a formal framework which is binding throughout the Group.

With an eye towards the political and social demands, it sets minimum requirements that zero in on staple foods in particular. The rules can be expanded on a case-by-case basis, however, to cover food and agricultural commodities where this makes sense.

7 Transformation and expectations of our clients

We see our task in accompanying our customers on their innovation, sustainability and transformation path. As a reliable partner, we also support them in phases of transition, for example in their conscious decarbonisation path.

We assume that our customers also deal with their impact on the environment and society and provide adequate governance. This also includes dealing with the opportunities and risks of sustainability and forming a picture of future requirements.

We want to work permanently with business partners and customers who share our understanding of the protection of nature and natural resources, people and society, as well as of business order, legality and legitimacy, and who have therefore established or are introducing appropriate initiatives and measures.

In case of deviations, we try to find out the causes together with our customers and support each other in further development, because a common understanding is the basis of a trusting cooperation.

We have already formulated requirements in connection with business principles in the attached document in the respective chapters "Our Stance" or the Policies.

8 Transparency and outlook

BayernLB reports extensively and transparently on its successful efforts towards sustainable banking and on its respective financial solutions.

This information can be found in:

- [The BayernLB Group non-financial report](#)
- [Each Group member's GRI Standards-based sustainability report](#) (where pertinent)
- [The Sustainability Strategy of the BayernLB Bank](#)
- [The BayernLB's Sustainability Programme](#) (including Environmental Programme)

The progress on our implementation of the standards of the UN Global Compact and the Principles for Responsible Banking, both of which we are voluntary members, are disclosed yearly in our Sustainability Report.

The Sustainability Programme deals with the operationalised goals and measures for all the pertinent issues addressed in the Sustainability Strategy. The sustainability programme is thus a key instrument for making decisions on and upgrading BayernLB's sustainability performance.

Last updated in 2021, the programme tackles regulatory rules such as green asset ratio reporting, as well as other issues like which methods to apply for raising awareness and appreciation for ESG risks and sustainable value (ESG impact). With an eye

towards carbon neutrality in our customer portfolio and equity book, we will be developing a method for ensuring transparency in all activities and developments relating to the **CO2 management ratio**, with annual reporting beginning in 2024.

We will also continue to adjust our frameworks and policies to the supervisory requirements and legitimate interests of our stakeholders as these evolve. Social changes and scientific findings in particular, but also landmark political decisions, will be integrated into this transformation process.

BayernLB will thus be even more pro-active in meeting the challenges posed by climate change, threats to biodiversity etc. and set more finely defined parameters for such important areas of business as agriculture.

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10 Glossary

Term	Definition
ESG	Environmental: Environmental aspects fall under this topic, such as climate change mitigation and pollution prevention and control. Social: Socially compatible business is also a focus of a more sustainable society. This includes, e.g., measures that serve the common good and public services. Governance: Corporate governance is an aspect of sustainable business (good governance). This includes, e.g., gender equality and cooperative structures.
GRI	Global Reporting Initiative
Group companies	Group companies (or Group members) comprise the parent bank BayernLB and the entities belonging to the Group for the purposes of these principles.
KPI	Key performance indicators
KRI	Key risk indicators
MTR	Mountaintop removal
SDG	Sustainable Development Goals

11 Whom to contact

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Appendix

Further information

What are protected areas in accordance with UNESCO World Cultural Heritage, IUCN and Ramsar?

The UNESCO list of world heritage currently encompasses 1,092 sites in 167 countries. 845 of these are cultural monuments and 209 are natural sites. A further 38 sites are deemed both cultural and natural heritage sites (as at 2018). An up-to-date list of sites can be found at <http://whc.unesco.org/en/list/> Google Earth users may download the file at <http://whc.unesco.org/en/list/kml/> to supplement the virtual globe with information on all the world heritage sites.

The IUCN (International Union for Conservation of Nature) is an international non-governmental organisation. Its work includes drawing up the Red List of endangered species and categorising protected areas via the World Commission on Protected Areas. The IUCN uses the IUCN Protected Areas Categories System, introduced in 1978, for comparable categorisation of protected areas worldwide. A corresponding map of protected areas that includes a search function can be found here: <http://www.protectedplanet.net/>

The Ramsar Convention is an agreement on wetlands that have international significance, especially as habitats for waterfowl and wading birds. The Convention was signed in the Iranian city of Ramsar on 2 February 1971, which makes it one of the oldest international treaties on conservation. The Convention currently protects more than 2,200 areas worldwide with a total area of more than 2.1 million km². An overview of the protected areas listed by contracting party (member state) is available at: <http://www.ramsar.org/country-profiles>

What areas do the Arctic and Antarctic cover?

The Arctic includes all land and sea areas north of 66° 30' N latitude (polar circle), and thus certain portions of territories belonging to Canada, Russia, the United States (Alaska), Norway, Sweden, Finland, Iceland and Denmark (Greenland). These countries are also known as “Arctic Eight”.

The Antarctic is defined using the Antarctic Convergence (Meinardus Line). The line runs at an approximate average latitude of 49° S, between the 45th parallel in the area of the Indian Ocean and the 57th parallel in the Drake Passage. This zone includes the Antarctic continent as well as the following sub-Antarctic islands and archipelagos: South Georgia and the South Sandwich Islands, Peter I Island, Bouvet Island, Heard Island and McDonald Islands, Macquarie Island, Scott Island and the Balleny Islands.

What is nuclear fuel?

Nuclear fuel is fuel used in nuclear power plants to produce electricity. These days it is usually fuel rods containing uranium dioxide in pellet form, whereby the isotope

uranium-235 is the main fissile material. There are also uranium-plutonium mixed oxide (MOX) fuel rods that make use of plutonium-239 and plutonium-241 isotopes as well.

Uranium occurs in nature in the form of uranium ore; the largest uranium deposits are located in Canada, Australia, Kazakhstan and Namibia. Natural uranium contains just 0.71 percent of the isotope uranium-235. The uranium inside fuel rods used in nuclear power plants contains approximately 3 to 4.6 percent uranium-235. Therefore, the uranium must first be enriched to the requisite uranium-235 content before it can be deployed in fuel rods in the form of uranium dioxide.

How are nuclear power plants decommissioned?

Nuclear power plants (NPPs) are decommissioned subsequent to a post-operational phase lasting several years after the final plant shutdown, during which preparatory measures needed for closure are performed. There are three distinct decommissioning methods: “safe confinement”, “direct decommissioning” and “decommissioning after safe confinement”. With “safe confinement”, the NPP is shrouded in concrete to ensure that it does not impact the environment, or vice versa. With “direct decommissioning”, the NPP is dismantled following the post-operational phase. Irradiated components must be taken apart on site and cleaned up as much as possible. Decommissioning after confinement” is a combination of both methods: the NPP is first shrouded, and only dismantled a few decades later.

How is nuclear waste stored?

In the treatment and final disposal of nuclear waste there is a distinction made between low-level, mid-level and highly radioactive material. Whereas approved permanent repositories already exist for the former categories, there is to date no approved permanent repository for highly radioactive material anywhere in the world. Exploration of potential storage sites in Finland and Sweden is at a relatively advanced stage.

In Germany, Konrad pit has been approved as a permanent repository for low and mid-level radioactive waste and should start operating in 2022. Alongside radioactive waste from nuclear power plants, similar waste from hospitals, for example, is to be stored here. Although low and mid-level radioactive waste accounts for about 90 percent of the total volume, it however contains only about 0.1 percent of the total radioactivity that needs to be disposed of.

The issue of final storage for highly radioactive nuclear waste is still not resolved in Germany. Exploration of the long favoured salt dome in Gorleben, in Lower Saxony, was terminated in the wake of a decision by the German Federal Ministry for the Environment. On the basis of the 2013 “Law for search and selection of a location for a permanent repository for heat-producing radioactive waste and amending other laws” (“Standortauswahlgesetz”, StandAG), there is to be a renewed and open-

ended search for a permanent repository location that will culminate in a final decision on a location in 2031.

What is hydraulic fracturing?

Hydraulic fracturing (fracking) is the term given to a stimulation technology that improves flow conditions for oil and gas by making subterranean rock strata more permeable. It is employed both in oil exploration and raw material extraction. The method involves injecting a mixture of water, sand and chemical additives underground at high pressure. This induces long cracks (“fractures”) which ease extraction of the raw materials. The same method finds application in the coal industry for degassing coal seams, and in geothermal energy as well, although most of the time the critically viewed chemical additives are not used here. Public debate is focused on multi-stage high-volume horizontal hydraulic fracturing for extracting unconventional hydrocarbon resources such as shale gas and tight oil.

What are tar sands?

Oil sands, or tar sands, consist of sand and clay, water, and an average of 10-12 percent hydrocarbons (bitumen). Tar sands belong to the class of unconventional oil, which cannot be extracted using traditional methods. Its extraction and processing is significantly more difficult and thus more costly than conventional oil. It takes on average two tons of tar sand to produce one barrel (159 litres) of crude oil.

Tar sand deposits have been found in about 70 countries to date. Canada and Venezuela have the largest deposits by far. The two countries each hold about one third of the world’s tar sands. Other countries with deposits include Saudi Arabia, Iran and Iraq, and the United States.

There are two different extraction methods for tar sand: opencast mining and what is known as the “in situ method”. Opencast mining is used to access tar sand at depths up to 75 m. Extraction involves stripping away vegetation and topsoil, then using machinery to excavate the tar sand beneath. The in situ method comes into use for deeper deposits. “In situ” means “in place” and relates to the fact that the bitumen is separated within the deposit of sand and brought up to ground separately. This is usually accomplished by feeding heat into the deposit in the form of hot water vapour. Heat increases the fluidity of the bitumen, which then can be pumped to the surface. It is a method requiring large quantities of water and energy.

What is illegal logging?

The term illegal logging means the whole process of cutting, transporting and selling or buying wood in violation of national or international laws. This includes, e.g.:

- Felling trees without forest usage rights
- Obtaining usage rights by way of corruption
- Felling protected tree species
- Falsifying customs documents
- Committing tax fraud

Most illegally logged wood originates from Eastern Europe and the developing and emerging markets in Africa, South-East Asia and Latin America. The UN and Interpol estimate that up to 30 percent of the global trade in wood stems from illegal sources. In some tropical regions, such as the Amazon, the Congo Basin and Indonesia, it could be as much as 50 to 90 percent.

According to the environmental protection organisations WWF and OroVerde, 50 percent of the wood supplied by Russia is illegally sourced. In Indonesia the organisations estimate that over 70 percent of wood is logged illegally; in Brazil this figure is placed as high as 80 percent, despite progress being made with protection of the rain forests.

What are protected species and forests and species and forests worthy of protection?

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) is an international convention designed to ensure sustainable, international trade of the plants and animals listed in its appendices. Since the convention was first signed in Washington on 3 March 1973 it is also referred to as the Washington Convention (WC). Depending on the level of endangerment, the species are listed in four different appendices in EU law.

The species protection regulations apply to many plants and animals, whether living or dead, and regardless of lifecycle stage, and to all products derived from their parts or entirety. It suffices when it is evident from any circumstance that products are or contain parts of protected animals or plants or products made from them.

Forests are described as HCVF (High Conservation Value Forests) if they are considered particularly worthy of protection due, for example, to their great biodiversity or their cultural significance. The concept was developed by the FSC. There are also HCVFs in Germany, e.g. national parks. In order to identify relevant areas of woodland, the FSC has developed an HCVF toolkit, which enables forests especially worthy of protection throughout the world to be identified according to standard criteria.

What legislative approaches are there to limit trade with wood from illegal logging?

Since the countries that import wood have recognised that they bear partial responsibility for illegal logging, various initiatives and laws have been established to prevent trade with or import of wood from illegal logging as far as possible. For example, in 2003 the European Commission established the Forest Law Enforcement, Governance and Trade (FLEGT) action plan designed to curb illegal logging. In 2005 the action plan was upgraded by the EU-FLEGT Regulation. According to the German Federal Ministry for the Environment, the goal of the regulations and the partner agreements with wood-exporting countries envisaged in them is that these partners undertake to ensure legal management of their forests. As part of the International

Arrangement on Forests, which was passed by the UN Forum in 2007, the member states undertook to improve cooperation in combating trade with illegally obtained wood.

In October 2010 the EU passed “Regulation (EU) No. 995/2010 of the European Parliament and the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market”, which banned the importing of illegal wood products into Europe. This timber trade regulation came into force in March 2013 and obliges importers to establish a system to ensure traceability, with which they can determine the type of wood and its origin and consider risk factors such as corruption and illegal logging in the country of origin. This duty of care should allow them to actively reduce existing risks so that no wood (products) from illegal logging is/are imported into the EU. The law does not cover the importing of finished printed material. The EU Regulation was implemented in German law through the German Timber Trade Protection Act (Holzhandels-Sicherungs-Gesetz (HolzSiG)).

What are certification & traceability systems in the forestry sector?

Certifications can be regarded as the opportunity to prove (from the seller’s point of view) or be assured (from the buyer’s point of view) that wood comes from a sustainably managed forest and has no connection to illegal logging. There are currently two major international forest certification schemes: the FSC (Forest Stewardship Council) and the PEFC (Programme for the Endorsement of Forest Certification Schemes). Both set standards that go above and beyond the legal minimum requirements so as to promote sustainable forestry. Of the two, the FSC standards enjoy greater recognition due to their overall tougher stipulations.

Traceability systems are required to enable the origin of wood to be traced through the entire value chain. This is important, for example, to preclude as far as possible that wood from illegal sources is used. Traceability is also of great significance in the manufacture of certified wood products, as it provides the framework to ensure that only wood which is permitted for use according to the respective certificate is used in the product.

The FSC and PEFC forest certification schemes therefore have relevant systems to trace the origin of wood. Chain of custody (CoC) certificates are awarded to processing companies which are able to guarantee that the wood-based raw materials originate from a certificate-compliant source. Important elements are proof of the origin of the wood, a plausibility check of the volume and ensuring that certified wood is not mixed with uncertified wood in an impermissible manner. Only manufacturers with a CoC certificate from one of the two quality marks may produce end products with the respective label and identifier.

What standards apply to the production of palm oil?

In 2004 the WWF set up the Roundtable on Sustainable Palm Oil (RSPO). Its members include palm oil growers, traders, consumer goods manufacturers, banks and non-governmental organisations such as the WWF. The members of the RSPO have undertaken to uphold the following principles:

- No deforestation of primary forests or ecologically valuable forested areas for plantations
- Protection of endangered animal and plant species on plantations
- Protection of water, ground and air (especially no burning of forests)
- Compliance with prevailing legal regulations, including land use and property laws
- No child labour, and education opportunities for children living on plantations
- Collaboration and cooperation with local farmers
- Inspection of plantations by authorised assessors

An overview of relevant palm oil companies and their progress towards certification of their palm trees can be found in the Sustainable Palm Oil Transparency Toolkit (SPOTT) database at <https://www.sustainablepalmoil.org/companies/#scores>.

What standards apply with regard to cultivating soya?

Similar to the Roundtable on Sustainable Palm Oil (RSPO) the Round Table on Responsible Soy (RTRS) was founded in 2006. It also has the goal of establishing social and environmental standards for cultivating and processing soya. Among its members are soya producers; industry, trade and financial institution representatives; and NGOs. The members of the RTRS have undertaken to uphold the following principles:

- Principle 1: Legal Compliance and Good Business Practice
- Principle 2: Responsible Labor Conditions
- Principle 3: Responsible Community Relations
- Principle 4: Environmental Responsibility
- Principle 5: Good Agricultural Practice

What are high-risk countries?

There is no official list of countries in which the risk of deforestation and illegal logging is particularly high. However, the WWF cites such regions and countries as the Amazon basin, Indonesia and Russia. Essentially all wood-growing countries from which the timber is regularly sourced illegally, such as is the case with countries with tropical rainforests, fall under the high-risk category. The most important countries of origin for these kinds of wood have joined together in the International Tropical Timber Organization (ITTO). https://www.itto.int/about_itto/members/

Africa	Asia	Latin America
Benin	Cambodia	Brazil
Cameroon	Fiji	Colombia
Central African Republic	India	Costa Rica

Congo	Indonesia	Ecuador
Côte d'Ivoire	Malaysia	Guatemala
Democratic Republic of the Congo	Myanmar	Guyana
Gabon	Papua New Guinea	Honduras
Ghana	The Philippines	Mexico
Liberia	Thailand	Panama
Madagascar	Vietnam	Peru
Mali	Cambodia	Suriname
Mozambique	Fiji	Trinidad and Tobago

Other sources cite additional high-risk countries.

What are Designated Countries according to the Equator Principles?

The term Designated Countries under the Equator Principles describes countries in which the legal requirements are so strict that it can be assumed when financing projects that high environmental and social standards are complied with. An up-to-date list of the Designated Countries can be found here: <https://equator-principles.com/designated-countries/>

Agricultural commodities – Food – Staple food

Agricultural commodities are commodities that are produced on farms or plantations and used by human beings for purposes involving food, fodder and/or re-growth or propagation. Not included in this category are forestry-produced commodities, in particular wood, and fruit and vegetable plants grown chiefly for direct consumption. What these commodities have in common is that their production is seasonal and dependent on weather conditions. Grains, root crops, oil plants, coffee, cocoa, cotton and rubber are considered the most important agricultural commodities. The principal applications of agricultural commodities are in the production of food and fodder.

Food is a commodity that is used primarily for human sustenance and which, due to its macronutrients (proteins, carbohydrates and fats), provide the human body with bulk energy.

Staple food describes those foods which make up the greatest volume of the people's diet in the respective culture. They are eaten several times a day and meet the majority of nutritional requirements.

According to the UN Food and Agriculture Organization (FAO), the following plants provide approximately 90 percent of the food for the global population: barley, oats, sorghum, millet, potatoes, lentils, maize, cassava, rice, rye, soya beans, sweet potatoes, wheat and yams.

Which countries are especially affected?

Special attention should be paid to relevant transactions involving participants from countries where the supply of staple foods is considered critical.

The Global Hunger Index (GHI) provides a glimpse into the global food situation. To this end it measures the nutritional status of the population using four indicators. It has been published by Welthungerhilfe in collaboration with the International Food Policy Research Institute (IFPRI) in Washington for the past ten years and is based on a 100-point scale.

The countries reaching the most points in 2021 were Somalia, Yemen, the Central African Republic, Chad, the Democratic Republic of the Congo, Madagascar, Liberia, Haiti, Timor-Leste, Sierra Leone, Mozambique and the Republic of the Congo. With a few exceptions, the countries classed as “serious” or “alarming” are located in Africa and South-East Asia.

For more information go to: <https://www.welthungerhilfe.org/news/publications/detail/global-hunger-index-2021/>