

Principles for managing environmental and social risks – Postbank Group

Deutsche Postbank AG

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Introduction

Postbank has made a commitment towards contributing to the implementation of the United Nations Sustainable Development Goals in its area of responsibility. With this in mind, we want to cooperate with our stakeholders in a fair and conscientious manner and address the environmental and social repercussions that may arise from our business activity. Our understanding of responsibility is highlighted by our formal commitment to complying with the ten principles of the United Nations Global Compact (UNGC).

Our objectives are to promote sustainable business, guarantee increased transparency and ensure that our risk management processes are consistent with good industry practices. We do this because we believe that companies have a competitive edge in the long term if they understand and manage their social and environmental risks and opportunities. This means that they are less susceptible to scandals and are more resistant to external shocks. This is also due to the fact that they gain approval from the general public and their own workforce.

We mainly focus on business with private customers as well as with small and medium-sized enterprises. Our corporate customers are active in various industries, including those that may be associated with significant environmental and social repercussions. We therefore need to understand the environmental and social risks associated with a particular industry, customer or transaction in the same way we do for traditional banking risks.

Assessing these risks effectively is crucial to avoid any negative impacts on the environment or civil society. Failing to deal with these risks may jeopardise Postbank's reputation and financial standing and lower our opportunities on the market. The systematic assessment of environmental and social risks is therefore an integral part of our risk management process.

This document outlines Postbank's position in relation to selected sectors and overarching environmental and social issues that are reflected in directives, guidelines and processes. As a result, we ensure that we actively take account of established environmental and social risks in our own business activity and customer business relationships across corporate financing.

As part of the Deutsche Bank Group, Postbank complies with the "Environmental and Social Policy Framework" published by Deutsche Bank in January 2017 for dealing with environmental and social risks. There are some deviations from this because Postbank is not active in certain business areas, for example it does not operate investment banking and its corporate customer base is limited to Europe and North America. It is exclusively operational in commercial property financing in North America.

Our guidelines are reviewed regularly. Postbank will promptly update the information contained in this document if such changes have an impact on the content therein.

1. Management of environmental and social risks

Our approach to managing environmental and social risks (ES risks) is based on the values and principles in the Postbank mission statement that we released in 2013. It is substantiated by the 'principles of corporate responsibility' that are binding for all employees. These guiding principles emphasise the importance of sustainability to our business operation. They compel us to be mindful of the environmental and social consequences of our actions and to deal with them responsibly.

The approach to managing ES risks constitutes part of our approach for managing reputational risks. This is applicable throughout the Group for all project and commercial property financing, loan approvals for corporate customers, and the acceptance of new business partners operating in financial markets, as well as other units. In addition to this, it applies to activities that undergo the 'new-products-new-markets' process according to the 'minimum requirements for risk management' for banks, as well as applying to outsourcing plans including sub-outsourcing. The ES risk management approach governs processes and responsibilities with respect to determining, assessing and managing ES risks. It is supplemented by a non-transaction audit of current large-scale commitments: the Sustainability Officer performs an annual screening of the bank's ten largest credit commitments to companies, financial institutions and commercial property financing to review their sustainability aspects. Commitments in 'sensitive countries' or 'sensitive industries' present a potential reputational risk for Postbank and are reviewed separately. Countries with politically unstable structures or endemic corruption are regarded as sensitive in the same way as industries that involve an ecologically or ethically questionable activity.

Business units

Our business units are initially responsible for identifying and controlling ES risks in accordance with the requirements for managing Postbank's reputational risks. It is their responsibility to:

- identify reputational issues for all major transactions and business relations.
- perform the audit to the extent that the Sustainability Officer has to be involved in assessing ES risks, as stipulated in the Postbank guidelines.
- escalate the ES risks if the initiating entity (front office) and the risk-bearing entity (back office) do not reach a unanimous assessment.

Reputational risk committee

Substantial ES risks that have been identified should be submitted to the reputational risk committee for judgement. This ensures that transactions that pose significant risk to the bank's reputation are assessed and decided upon at the highest level. The Management Board for Resources, the Chief Risk Officer and other executives are a part of the reputational risk committee insofar as they are involved in managing reputational risks.

Sustainability Officer

In accordance with the provisions set out by Postbank for the management of ES risks, the Sustainability Officer is responsible for assisting business units with evaluating environmental and social issues and the risks that they pose. This involves more than just assessing tangible transactional activities during the decision phase. The Sustainability Team also regularly analyses publications by governmental and non-governmental organisations on industries and countries that are regarded as critical. The results are incorporated into the annual update to our guidelines for the management of ES risks.

2. Review of environmental and social aspects

We expect our customers to be compliant with current ES laws and provisions and to possess all necessary licenses and authorisations. In addition to this, Postbank also expects its customers to follow international best practices.

As part of our ES review, we take into account publicly accessible information from corporate publications and media. We also review critical issues directly with the customer if necessary.

We will not be associated with any activity and relationship where there is clear evidence of severe human rights violations or damage to the environment. That is why we exclude the following activities, to the best of our knowledge:

- 1) Providing financial services without comprehensive environmental and social due diligence checks to customers who have frequently and demonstrably contravened environmental and social laws or regulations in the past.
- 2) Providing financial services to customers who do not ensure that they are compliant with the minimum legal requirements stipulated in health and safety regulations.
- 3) Providing financial services for activities and/or to customers that use child or forced labour as defined by international labour conventions.
- 4) Providing financial services for activities within or in proximity to world heritage sites, unless both the government and UNESCO give prior agreement that the activities do not adversely affect the outstanding universal value of the sites.
- 5) Providing financial services for projects or activities that involve primary tropical rainforests or clearings within them that have occurred through illegal deforestation and/or an illegal slash-and-burn clearing method.
- 6) Providing financial services for palm oil companies that are not members of the Roundtable on Sustainable Palm Oil (RSPO), are not certified to its standards or have not made a time-bound commitment to acquire RSPO certification
- 7) Providing financial services for existing coal-fired power plants or for the development of new ones that have sub-critical technology and are lacking in thermal energy efficiency.
- 8) Financing mining companies that use the mountaintop removal (MTR) method of extraction to the extent that they make a substantial contribution to the annual total coal output by MTR processes in the United States.

We strive to identify the issues that need addressing in industries that have a huge potential for significant environmental and social impact. This can involve issues across industries as well as ones specific to an industry (cf. below). We continually develop our approach to these issues and our understanding thereof. That is why we maintain communication with other banks, representatives of the respective industries, non-governmental organisations and other relevant stakeholders for this purpose. With this in mind, our guidelines for managing ES risks are reviewed and updated at least once a year in order to take into account any changes to our circumstances.

2.1. Cross-industry issues

Human rights

We advocate for human rights. With our participation in the United Nations Global Compact initiative, we have made a commitment to respect and promote international human rights. Every year we produce a public report on our progress in respect of this.

We ensure that our customers' measures are geared towards avoiding the use of child and/or forced labour. To the best of our knowledge, we do not provide financial services for activities and/or to customers that use child or forced labour as defined by international labour conventions.

We expect our customers to not only protect the health of their own employees, but also the health and safety of their subcontractors and suppliers. We also expect customers to take effective action to avoid any negative impacts on the surrounding communities in which their business operates. To the best of our knowledge, we do not provide financial services to customers who do not ensure that they are compliant with the minimum legal requirements stipulated in health and safety regulations.

We recognise the need to protect indigenous populations as well as their connections to the land of their ancestors in accordance with the United Nations declaration on the rights of indigenous peoples. Since Postbank corporate customers are limited to Europe and North America, we have not formulated any explicit exclusion criteria for this. However, should a potential transaction affect the interests of indigenous populations, the decision – as with all substantial ES risks – has to be made with the bank's reputational risk committee.

Conservation areas and world heritage sites

We recognise that business activities can have substantial negative impacts on areas of national and international significance where there may be a high degree of biodiversity or highly sensitive ecosystems and habitats. We expect our customers to identify, assess and minimise the impact of these risks by using universally accepted international guidelines and best practices.

Areas with high biodiversity and/or highly sensitive ecosystems/habitats include biosphere reserves, wetlands of international significance, conservation areas in accordance with IUCN categories I-VI¹, and other areas that are vulnerable or protected by domestic legislation. We also recognise that world heritage sites need to be protected and preserved.

It is for this reason that we do not provide financial services, to the best of our knowledge, for activities within or in proximity to world heritage sites, unless both the government and UNESCO give prior agreement that the activities do not adversely affect the outstanding universal value of the sites. Transactions that we can identify as having potential impacts on conservation areas or world heritage sites will be subject to a thorough ES review.

2.2. Industry-specific issues

Energy

Postbank recognises the risks caused by climate change and encourages the transition to a low-carbon, climate-friendly economy. We have adopted the aims from the 2015 United Nations Climate Change Conference. We have also decided to clearly outperform Germany's greenhouse gas reduction target – measured as a percentage – in our area of responsibility: our objective is to reduce greenhouse gas emissions from our business operations by more than 40% by 2020. By doing so, we want to do our bit to limit global warming to a maximum of 2°C over pre-industrial levels.

Coal

In many regions of the world, coal still remains the most important source of energy due to persistent fuel poverty and the lack of available and affordable alternatives. However, coal-fired power plants emit far more CO₂ per unit of energy than oil or gas-powered plants. That is why we do not provide financial

¹ The classification system used by the International Union for the Conservation of Nature (IUCN) differentiates between six conservation area categories according to conservation goals: Ia: strict nature reserve, Ib wilderness area, III national park, IV natural monument or feature, IV habitat/species management area, V protected landscape/seascape, VI protected area with sustainable use of natural resources.

services, to the best of our knowledge, for existing coal-fired power plants or for the development of new ones that have sub-critical technology and are lacking in thermal energy efficiency.

Hydropower

Hydropower is the largest renewable energy source in the world and produces up to a sixth² of the total worldwide power output. It is a well-developed technology that plays an important role amid growing demand for clean, reliable and affordable energy. However, the development of new power plants poses complex ES challenges and risks that depend on the type, location and scale of the project. Since Postbank corporate customers are limited to Europe and North America, we have not formulated any explicit exclusion criteria for this. We expect our customers to adhere to the social and environmental regulations that are in force. However, should a potential transaction involve substantial ES risks, an extended ES review is required. The decision has to be made with the bank's reputational risk committee.

Nuclear power

Nuclear power is the second largest source globally for low-carbon power generation after hydropower³. Postbank views nuclear power as an important low-carbon technology in the transition to a sustainable energy mix. At the same time, we recognise the huge risks involved such as nuclear disasters or the incorrect disposal of nuclear waste. We therefore finance transactions in the civil nuclear power sector if they adhere to strict country and project-specific criteria. Transactions that involve financing new nuclear power plants or the expansion of existing ones shall be subject to an extended ES review. They have to be decided upon with the bank's reputational risk committee.

Hydraulic fracking

Hydraulic fracking is procedure that is used to extract shale oil and gas unconventionally. Shale gas is the fossil fuel with the lowest carbon emissions. However, this advantage may be outweighed by the possible release of methane during the procedure as well as other potentially negative environmental and social implications. Due to the reputational risks associated with it, Postbank guidelines require a more in-depth ES review. If an activity in this field were to be financed, then the decision has to be made with the bank's reputational risk committee.

Mining

Although the mining industry is an important source of minerals and metals for the global economy, mining operations have numerous environmental and social implications that need to be managed and minimised. As well as impacts on local eco-systems, the health and safety of employees at work should be taken into consideration in addition to the impacts on the surrounding communities.

To the best of its knowledge, Postbank does not contribute to the financing of mining companies that use the mountaintop removal (MTR) method of extraction to the extent that they make a substantial contribution to the annual total coal output by MTR processes in the United States. MTR is a form of open-cast mining in which the mountain peak is removed in order to expose coal seams. The procedure is controversial due to its impact on the environment.

Since Postbank corporate customers are limited to Europe and North America, we have not formulated further explicit exclusion criteria for mining. We expect our customers to adhere to the social and environmental regulations that are in force. However, should a potential transaction involve substantial ES risks, an extended ES review is required. The decision then has to be made with the bank's reputational risk committee.

² International Energy Agency: Key World Energy Statistics 2013.

³ International Energy Agency: Energy and Climate Change 2015

Agriculture and forestry

Agriculture and forestry are important for the production of agricultural commodities such as palm oil, cocoa, cotton, rubber, soya, coffee, bovine meat and timber. Industrial developments in these areas have a positive impact on economic growth in particular countries. However, they may also have adverse effects such as land clearance, loss of biodiversity and conflicts with communities.

In order to address these concerns and encourage sustainable production, Postbank has stipulated the following exclusion criteria for companies that are active in these areas: We do not provide, to the best of our knowledge, financial services for projects or activities that take place in primary tropical rainforests or clearings within them that have occurred by illegal deforestation and/or an illegal slash-and-burn clearing method. We do not provide, to the best of our knowledge, financial services for palm oil companies that are not members of the Roundtable on Sustainable Palm Oil (RSPO), are not certified to its standards or have not made a time-bound commitment to acquire RSPO certification.

Postbank finances agriculture and forestry operations almost exclusively in Germany and rarely in the European Union as well. Germany and the EU have extensive regulations for the protection of animals and the environment. However, we consider crop cultivation, livestock farming and forestry to be industries with sensitive environmental and social aspects.. Substantial ES risks arising from these industries have to be decided upon with the bank's reputational risk committee.

Fishing industry

According to the Food and Agriculture Organization of the United Nations (FAO), just under three billion people obtained almost 20% of their required animal protein intake from fish in 2012. Around 10-12% of the world's population subsists on fishing and aquaculture⁴. The fishing industry, however, faces numerous challenges such as illegal, unreported and unregulated fishing and overfishing of important fishing stocks. Sustainable fishing therefore plays an important role in "ensuring the effective conservation, management and development of living aquatic resources, with due respect for the ecosystem and biodiversity"⁵. Transactions that involve the financing of companies that operate outside Europe and the USA for fishing and primary processing of fish shall require an extended ES review. The bank's reputational risk committee has to become involved if substantial ES risks are detected for a potential transaction.

Arms and defence equipment

Arms and defence equipment are necessary for the domestic and foreign security of democratically legitimised states and communities. They are, however, used all over the world to impose objectives and interests by force, with this inflicting severe harm on public welfare. Postbank exercises particular care when dealing with the social – and in many cases environmental – risks posed by the use of weapons, defence equipment and police equipment. We have therefore created detailed provisions in our guidelines for managing ES risks for transactions connected to arms and defence equipment.

Postbank does not finance any transactions associated with specific types of weaponry, in particular anti-personnel land mines, cluster munitions or NBC weapons.

The reputational risk committee has to decide on every transaction associated with defence equipment. This ensures that transactions made in this sensitive area are assessed and decided upon at the highest level.

Areas that should be assessed as particularly sensitive are:

⁴ FAO: The State of World Fisheries and Aquaculture; fact sheet, June 2014

⁵ FAO: Code of Conduct for responsible fisheries

- military or police equipment that can be potentially used against a country's own population (weaponry used to suppress rebellions, including technology to manipulate or shut down channels of communication);
- armed drones and unmanned aircraft (unmanned aerial vehicles, UAVs); and
- technology and components that aid cyber warfare (including surveillance and spying technology to acquire information for secret services).

Besides individual weapons and defence deals, we also consider the following as having the potential to pose risks:

- approving credit for financing capital expenditure to companies that manufacture and trade weapons; and
- goods that have a dual use (civil as well as military) or miscellaneous transactions that may be of military relevance. In determining whether the transaction concerns goods with a dual use or has a possible military relevance, not only do the goods or services need to be examined, but so do their vendor or supplier, the buyer or recipient, as well as the intended purpose or use of the goods or services.

In assessing cases relating to defence equipment, all three parts of a transaction are reviewed:

- the exporter/vendor of military goods or services and their country of origin;
- the recipient/buyer of these goods or services (normally the Ministry of Defence or a company under its control) and the corresponding destination country; and
- the item or service itself.

3. Own business operations

Our contribution to a low-carbon economy begins with our own business operations. Postbank is certified to the international environmental management standard (ISO 14001) and the international energy management standard (ISO 50001). Our sustainability performance is assessed annually by external auditors.

In order to reduce the emissions produced the bank's energy consumption, we are investing in energy-saving measures and obtaining power from renewable sources. In 2016, 97% of our entire power consumption came from renewable sources. By doing so, we have saved the equivalent of more than 48 000 tonnes of CO₂. We have set ourselves the goal of exceeding Germany's greenhouse gas reduction target – measured as a percentage – in our area of responsibility: our objective is to reduce greenhouse gas emissions from our business operations by more than 40% by 2020.

We are also taking action with regards to social responsibility. Postbank offers its employees comprehensive healthcare management with regional contacts, while numerous consultancy and training opportunities are offered. It is our objective to increase the proportion of women in leadership positions. We have therefore launched special training and development programmes for female employees. Postbank has signed the German "Diversity Charter" (Charta der Vielfalt) and prohibits any form of discrimination. We are continually enhancing our family-friendly nature and we are regularly audited by the non-profit organisation "berufundfamilie GmbH" – a charity that examines the compatibility of work, family and private life.

We dedicate ourselves to the community in which we carry out our business operations. Aside from projects in the education sector, we also promote social integration and are involved in refugee relief work. The bank actively supports its employees in their voluntary work in their social environment.

4. Stakeholder engagement

Regular and constructive dialogue with stakeholders (shareholders, customers, employees and society at large) is vitally important for the responsible operation of our business.

This engagement allows us to

- understand our stakeholders' concerns;
- prepare for potential future impacts on our business model by global trends or regulatory developments;
- minimise risks and identify business opportunities at an early stage;
- make well-informed decisions for the bank and when dealing with customers;
- stipulate and refine standards and voluntary commitments in our industry;
- outline where we stand on sensitive issues; and
- promote mutual learning by recognising the complexity of global issues.

The findings from this dialogue feed back into our sustainability management as well as ES risk management and our reporting. They also help us to respond constructively to criticism and to articulate our position on important issues as well as explain the functions and limits of financial products and services. We know that the interests of our stakeholders do not always align with each other and that we have to balance these interests. We are open to critical stakeholders and take their feedback seriously.

5. Reporting

Postbank publishes an annual sustainability report which includes, among other items, reports on its objectives and progress in managing social and environmental risks and opportunities. The report is written in accordance with the Global Reporting Initiative guidelines (core option). Beyond our annual CR reporting, we regularly disclose information to various sustainability rating agencies. We are increasingly using the internet and social media in order to increase transparency and improve engagement with our stakeholders when it comes to particular issues.