Green Bond Framework
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Deutsche Pfandbriefbank AG

Table of Contents

1 Introduction

Deutsche Pfandbriefbank AG ("pbb") is a specialized bank for commercial real estate finance. Based in Germany, the bank is active in Germany but also in Western and Central Europe and in the United States of America. pbb employs over 750 employees with 35 different nationalities to offer financing solutions tailored to its clients' needs. pbb shares are listed on the Frankfurt Stock Exchange with a high percentage of free float. pbb is supervised by the Joint Supervisory Team consisting of European Central Bank ("ECB"), Deutsche Bundesbank and the German Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "BaFin"). With an outstanding volume of approx. € 25 bn Pfandbriefe, pbb is one of the largest Pfandbrief issuers in the market. Since the establishment of the Green Bond Framework in 2020, € 3.36 bn senior preferred bonds in green format have been placed on the market, making pbb the largest issuer in this segment in Germany.

pbb is active as a lender in only one segment and therefore has a clearly defined business model.

> pbb offers loans for professional real estate investors to finance mainly office, multifamily, retail and logistics properties. The focus is on lower leverage (portfolio average approx. 50 % LtV) loans to special purpose companies. Besides existing properties, new constructions and refurbishments are also financed. Given the focused client base and very limited exposure to controversial activities, pbb achieves good ESG Ratings.

2 pbb's Sustainability Strategy

For pbb, sustainability means that its actions contribute to securing the future in the long-term, taking into account the consequences for all its stakeholders. To this end, pbb strives to combine long-term economic success and sustainability aspects in the best possible way. Even though pbb attaches great importance to social and governance issues, considering approx. 40 % of all greenhouse emissions are caused by the real estate sector, pbb, as a real estate financing institution, places a particular focus on ecological topics. Especially adapting buildings to become more energy-efficient makes a significant contribution to reducing CO2 emissions. For this reason, pbb expressly committed to the Paris Agreement with the 1.5°C target to be reached by 2050 and wants to actively contribute to shape the green transformation of the real estate sector.

As a result, pbb aims to be a transformation partner for its clients, and to continuously expand and strengthen this position. In addition, the strategic objective of sustainable (re-)financing is being pursued. pbb is therefore focusing on supporting the financing of the acquisition of "green" properties as well as "green" developments and transformation projects (manage-to-green), such as energy refurbishments and improvements in the energy efficiency of existing buildings. For this reason, pbb has developed the "Green Loan"[1] as a product where the bank and the borrower mutually agree to define and document the ecological benefit of the granted loan. pbb aims at increasing the share of green loan eligible assets in its commercial real estate finance portfolio to 30 % by 2026.

In addition to its range of ESG (re-)financing products (Green Loan, Green CapEx/Development, Green Bond), the ongoing analysis of the existing portfolio is essential for pbb to obtain complete transparency and management options with regard to the sustainability criteria of its portfolios. For this purpose, pbb

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[1] https://www.pfandbriefbank.com/en/customers/green-loan.html

developed dedicated ESG analysis tools which range from sustainability scorings, taxonomy assessments to the application of a decarbonisation tool which measures the real estate performance against the CRREM[2] path. Each of the tools is applied in new lending, loan extensions and in the ongoing portfolio review. This is particularly necessary in order to steer towards the 1.5°C target and for setting interim targets along the way. To this end, pbb has made a concerted effort to collect loan portfolio data in 2022 and will continue to expand its data infrastructure.

The existing IT-infrastructure and lending processes allow pbb a systematic follow-up of customer data relevant to climate control and the anchoring of the future collection of this data in the regular processes. For example, this includes information about the final energy consumption, EPC level and type of heating. In addition, pbb is expanding its data requirements for the sustainability due diligence of financed properties with features derived from regulatory requirements such as DNSH checks (e.g. air-tightness tests of properties, preservation of biodiversity or protection of water and marine resources). This should enable pbb to comply with reporting requirements of the EU taxonomy in the future.

Apart from actively managing the existing portfolio, pbb seeks the client perspective and has, in an initial client dialogue, analysed how its clientele perceive the topic of sustainability and the associated transformation pressure as well as the resulting business opportunities and product needs in particular. Based on these discussions, a systematic client dialogue with corresponding exchange formats has been established in order to jointly shape transformation in the long term.

pbb also tackles social and governance issues and therefore joined the “UN Global Compact” in 2022 and has agreed to incorporate all ten principles that refer to Anti-Corruption, Environment, Labour and Human Rights into its business processes. This shows pbb’s commitment to the UN Sustainability Development Goals (“UN SDG”) 5, 8, 9 and 11. Consequently, pbb has included criteria such as diversity, safety at work, and many other aspects in its code of conduct and wants its suppliers to act in accordance with it. These and other measures were acknowledged and rewarded by MSCI with a rating upgrade from A to AA and by ISS ESG confirming pbb a “very high” transparency level in 2022. It is pbb’s ambition to further improve these ratings.

3 Rationale for pbb to issue Green Bonds

The financial industry plays a special role in the climate transition due to the ability to support funding of climate-friendly projects. By issuing Green Bonds, pbb has the option to use the proceeds to refinance green assets as well as to finance refurbishments under the conditions elaborated in the Green Bond Framework. With Green Bonds, pbb’s debt investor base has enlarged and pbb has gained the attention of international ESG investors. Therefore, Green Bonds further stabilize and diversify pbb’s funding base and thus its capital market presence in a cost-efficient manner. Transformational finance is the heart of pbb’s comprehensive ESG strategy, which in turn has become a central part of pbb’s business strategy underlining its goal to be a sustainable bank.

Taking the first step with Green Bonds on the liability side in 2020, the success and attention led to a variety of ESG projects at pbb as described above.

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[2] https://www.crrem.eu/

pbb's Green Bond Framework is designed in such a way that enables pbb to raise green finance in various formats (registered or bearer bonds) as syndicated transactions or private placements. Depending on funding needs and investor demand, Tier 2 capital, senior non-preferred, senior preferred or Pfandbriefe can be issued.

4 Green Bond Framework

The Green Bond Framework has been drafted in line with the 2021 edition of the ICMA Green Bond Principles[3]. Therefore, it follows the four core components hereunder:

> Use of Proceeds
> Process for Project Evaluation and Selection
> Management of Proceeds
> Reporting

As far as possible, pbb also takes into account the EU Taxonomy as adopted by the Commission on June 4, 2021 in the Delegated Act for climate change mitigation (https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf) and monitors the development of the proposed EU Green Bond Standard.

a) Use of Proceeds

An amount equivalent to the proceeds of the Green Bonds shall be exclusively allocated to the financing of properties that meet the eligibility criteria described in this chapter. The purpose is to finance/refinance the following economic activities with the overarching objective to contribute to the UN SDG 11 Sustainable Cities and Communities as well as to UN SDG 9 Industry, Innovation and Infrastructure:

> Construction of new buildings
> Renovation of existing buildings
> Acquisition and ownership of buildings

Eligible Properties built in 2021 or later have to meet at least one of the following criteria:

> At least 10% lower than the requirements for the primary energy demand of the "Nearly Zero-Energy Building" standard (NZEB)[4]

or

> The property's most recent Green Building Certificate has to be the best rating of one of the following Green Building Certificates: BREEAM (best rating: Outstanding); LEED (best rating: Platinum); DGNB (best rating: Platinum); HQE (best rating: Excellent)

Eligible Properties built before 2021 have to meet at least one of the following criteria:

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[3] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

[4] NZEB (Nearly Zero-Emission Building) - 10% may be defined together with external consultants or can be based on external official studies as a best effort approach.

Final Energy Consumption[5] lower than:

- Office < 140 kWh/m² p.a.
- Retail < 140 kWh/m² p.a.
- Hotel < 155 kWh/m² p.a.
- Residential < 100 kWh/m² p.a.
- Logistics < 65 kWh/m² p.a.

or

- EPC level of at least "A"

or

- belong to the top 15% of the national building stock[6]

or

- Buildings may also be included if refurbishments result in a relative improvement in primary energy demand of at least 30 % in comparison to the performance before the renovation. Any reductions caused by renewable energy sources must not be taken into account.

Exclusion Criteria

- Building used for the production of
  controversial weapons,
  chemicals
  nuclear energy,
  fossil fuels.
- Concentration of tenants with an unacceptable environmental impact or pornography / sex work.
- Substantial other negative impact on the environment (e.g. polluted areas, green field construction in protected areas, endangering biodiversity, hazardous waste).

b) Process for Project Evaluation and Selection

pbb has set up a Green Bond Committee to manage the process for project evaluation and selection as defined by the eligibility criteria above. The Green Bond Committee is composed of representatives from the following business areas: Communications, Property Analysis & Valuation, Portfolio Analysis and Treasury. Green Bond Committee meetings are held on quarterly intervals.

The Green Bond Committee is in charge of the missions hereunder and has to decide unanimously:

Ensure that the potential Eligible Properties comply with:

- pbb's standard credit process, which shall foster compliance with the bank's CSR commitments and any applicable regulatory or environmental and social requirements.

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[5] Final Energy Consumption is the energy consumption of all building needs, including heating, cooling, venting and electricity consumption, expressed in kWh/m² rental/usable area per year. In case of real estate assets made up of several buildings/components, the Final Energy Consumption is determined as an area-weighted average of the Final Energy Consumption of each building/component. In case of Real Estate Assets under construction or modernization, the Final Energy Consumption is determined as the expected Final Energy Consumption after construction/modernization has been completed.

[6] Top 15% may be defined together with external consultants or can be based on external official studies as a best effort approach.

- The eligibility criteria defined in the Use of Proceeds section.
- Monitor the portfolio of financed Eligible Properties against the Green Bond funding. The Green Bond Committee shall ensure that the amount allocated to the financing of Eligible Properties exceeds or will exceed in the near future the amount of the funding by Green Bonds.
- Monitor market developments, especially with regard to the EU taxonomy and plan its further implementation in the framework.
- Coordinate the Green Bond Impact and Allocation reporting.

Furthermore, a clear structure to identify and mitigate ESG risks has been implemented in the group. The structure is in line with the "Three Lines of Defense" principle. As a general rule, the first line of defense is made up of the risk owners in those divisions that are particularly client/public-facing, i.e. the heads of Sales, Property Analysis & Valuation, Credit Risk Management, Communications, Finance, Treasury and Corporate Office. The second line of defense comprises Risk Management & Control and Compliance, with Legal, Human Resources and Information Technology assuming a support function. Group Internal Audit is the third line of defense. pbb's risk management approach is described in detail in pbb's non-financial report.

c) Management of Proceeds

pbb manages the proceeds of the Green Bonds on a portfolio basis. The loans for Eligible Properties can already exist on pbb's balance sheet at issuance of a Green Bond. They are not booked in a separate portfolio but the loan amount is allocated in the IT system to the Eligible Properties. The Treasury business area monitors that an amount equivalent to the proceeds is used to finance or refinance the portfolio of Eligible Properties and that the amount of such Eligible Properties within the portfolio is generally higher than the proceeds of the outstanding Green Bonds issued. Outstanding Green Bonds may exceed the financing volume of the Eligible Properties for a short period[7]. pbb's Green Bond Committee decides how to rebalance the disequilibrium: Either by investing in Green Bonds fulfilling the ICMA Green Bond Principals or by holding cash if no additional Eligible Properties are financed.

pbb regularly updates its Green Bond Framework and, therefore, enhances the eligibility criteria described in the use of proceeds section. This framework only applies to Green Bonds issued after the publication of this framework. Conversely, it will not apply to Green Bonds issued prior to the current update of the framework. However, if an Eligible Property no longer meets the eligibility criteria of its respective framework, has matured or is redeemed, it will be removed from the portfolio of Eligible Properties.

d) Reporting

pbb commits to publish both, a quarterly allocation - and an annual impact report. The reports are publicly available on pbb's website: https://www.pfandbriefbank.com/en/investors/debt-investors/green-bonds.html

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[7] A surplus of Green Bonds shall be reversed within the two next Green Bond Committee meetings (equals roughly six months).

The allocation report, published shortly after each Green Bond Committee meeting, focuses on the following elements:

- The total amount of outstanding Green Bonds issued
- The total amount of loans financing Eligible Properties
- Examples of Eligible Properties
- The total amount of unallocated proceeds
- The geographical distribution of the Eligible Properties

The impact report demonstrates the environmental benefits associated to the Eligible Properties based on relevant impact metrics. Furthermore, a list of all properties with relevant information provides transparency of the Green Bond portfolio for all interested stakeholders. Examples of relevant metrics include:

Output indicators

- Portfolio breakdown by year of construction / refurbishment (in %)
- Portfolio breakdown by EPC class or energy consumption in kWh/m² p.a.
- Portfolio breakdown by property type and regions

Impact indicators

- Estimated annual reduced / avoided green house gas emissions (t CO_2 equivalent) in comparison to a benchmark
- Estimated annual reduced / avoided green house gas emissions per every € one mn of issued green bonds (t CO_2 / € mn)
- Estimated annual reduced / avoided green house gas emissions per every € one mn financed (t CO_2 / € mn)

5 External Review

Second-Party Opinion

pbb has appointed CICERO Shades of Green[8] to provide a Second-Party Opinion on its Green Bond Framework and its alignment with the Green Bond Principles. This Second-Party Opinion document is available on pbb's website.

Annual Review

An independent external reviewer is requested to provide an annual independent review on pbb's Green Bond Impact Report including a review of the allocation of the Green bond Proceeds, its alignment with pbb's Green Bond Framework, and the methodologies and assumptions used to evaluate the Green Bond impacts if relevant.

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[8] Part of S&P Global.

6 Disclaimer

This document does not constitute an offer, or an invitation to offer, or a recommendation to enter into any transaction. Before entering into any transaction any investor should take steps to ensure that he or she understands the transaction and has made an independent assessment of the appropriateness of the transaction in the light of his or her own objectives and circumstances, including the possible risks and benefits of entering into such transaction. Any potential investor should also consider seeking advice from her or his own advisers in making this assessment.

No assurance is given by pbb that any of pbb's Green projects or Green Bonds will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or her / his investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates.

Furthermore, it should be noted that legal and regulatory prerequisites pertaining to the label "green" and "sustainable", in particular in the financial sector, are under constant evaluation and development by many law- and policymakers, so it cannot be assured that pbb's Green Bonds or Green projects comply with these. Furthermore, there is no market consensus as to what constitutes a "green" or "sustainable" or an equivalently-labelled project, or as to what precise criteria are required to be complied with for a particular project to be defined as "green" or "sustainable" or such other equivalent label, nor can any assurance be given that such a clear definition or consensus will develop over time and that pbb's Green Bonds and Green projects will comply with such definition or consensus. Accordingly, no assurance is or can be given to investors that any of pbb's Green Bonds, Green projects and the assets financed by pbb will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled objectives.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by pbb) which may be made available in connection with the issue of any Notes and in particular with any Green projects to fulfil any environmental, sustainability, social and/or other criteria. Any such opinion or certification is not, nor should be deemed to be, a recommendation by pbb or any other person to buy, sell or hold any Notes.

While it is the intention of pbb to finance Green projects in an amount at least equal to the proceeds of any Notes so specified for Green projects in, or substantially in, the manner described herein, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Green projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Green projects. Nor can there be any assurance that such Green projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by pbb. Any such event or failure by the Issuer will not constitute an event of default under the terms and conditions of the Notes.