

Non-Financial Report

2021

Deutsche Pfandbriefbank Group



DEUTSCHE
PFANDBRIEFBANK

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Non-financial Report

Pursuant to sections 315b-c in connection with section 289b-e of the German Commercial Code (HGB), Deutsche Pfandbriefbank AG (pbb) has published this separate, combined non-financial report, prepared in line with the German Sustainability Code (DNK) and in accordance with the requirements of the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz).

Sustainability Strategy

Sustainability is the key principle of pbb Group's corporate responsibility. This means first of all being aware that one's own actions make a substantial contribution to securing a long-term future – and second, giving adequate consideration to the consequences of those actions for all stakeholders and for society and the environment.

pbb Group sees three aspects as a prerequisite for long-term commercial success and for safeguarding the future: responsible corporate governance based on law-abiding and honest conduct and adherence to high ethical principles, assuming social responsibility, and conserving natural resources and protecting the climate.

Within this context, pbb Group not only takes into account the statutory, regulatory and supervisory requirements, but also does its utmost to take account of the needs of its clients and the expectations of its investors, the general public and its employees. pbb Group deems regular, open and two-way dialogue to be essential for identifying the needs of these stakeholder groups at an early stage, and being able to give them sufficient consideration in decision-making processes.

pbb Group is aiming to actively support the process of development towards the end goal of sustainability. In order to make a positive contribution to achieving the sustainability objectives, pbb Group puts ESG issues at the centre of its actions and takes environmental (E), social (S) and governance (G) measures to achieve the objectives.

By way of example, pbb Group has made an explicit commitment to the Paris Climate Agreement and the sustainable finance targets set by both the EU and the German government, and has set itself the objective of making a significant contribution to achieving the climate targets. As a result, pbb Group has made ESG an integral component of both its business and risk strategy, and launched an extensive ESG programme in the 2021 financial year.

As a company with global operations, pbb Group is fully committed to respecting, upholding and strengthening human rights and to preventing human rights abuses during the course of its own business activities, but also along its entire supply and value chain as well as amongst its stakeholders. The Human Rights Guidelines and a Code of Conduct serve as a framework in this regard. At the same time, pbb Group incorporates sustainability aspects into the incentive system for managers and employees alike in order to actively promote motivation in connection with sustainability.

pbb Group's sustainability strategy focuses systematically on aspects which, on the one hand, have a material impact on its business activities and business success, and which pbb Group, on the other hand, can itself significantly influence. These aspects are determined via a materiality analysis. The materiality analysis conducted in 2019 was reviewed in 2021 to check that it was still valid. pbb Group's sustainability strategy is also designed to minimise sustainability risks to the greatest extent possible, whilst making use of the opportunities arising.

OVERARCHING SUSTAINABILITY OBJECTIVES

The financial industry has a key role to play in transforming the economy and our society to make them more sustainable by ensuring that investments go into appropriate areas in the spirit of sustainable finance. As a financing partner for the real estate industry and the public sector, pbb Group holds an important real economic and macroeconomic function. pbb Group is aware of the responsibility that this entails and will underscore this commitment by supporting or joining the self-regulatory codes that are common practice in the industry. pbb Group aims, for example, to sign up to the UN Global Compact (UNGC) in 2022, which will see it make a voluntary commitment to the ten principles of the UNGC derived from the 17 Sustainable Development Goals (SDGs) of the UN's Agenda 2030. The SDGs serve to generally preserve sustainable development at an economic, social and environmental level and have been incorporated into pbb Group's sustainability strategy.

pbb Group has split the SDGs into three priority groups based on the contribution it can make through its business activities: a direct or indirect positive contribution or the avoidance of negative impacts.

pbb Group can make a substantial positive contribution to four SDGs: gender equality (SDG 5); industry, innovation and infrastructure (SDG 9); decent work and economic growth (SDG 8); sustainable cities and communities (SDG 11).



Chart: The four SDGs that pbb Group has prioritised.

ESG PROGRAMME

In order to ensure that statutory, regulatory and market requirements on the one hand, and the market opportunities arising in the context of sustainability/ESG on the other, are addressed efficiently and in full, pbb Group has launched a comprehensive ESG programme that is the responsibility of the Management Board as a whole. This programme addresses all ESG topics relevant to pbb Group – strategy, environment, social and governance (ESG), as well as ESG risk, data management, communication and reporting – in five projects and three overarching working groups.

The programme is based on a governance structure with clearly defined responsibilities and relevant committees (see chart).



Chart: ESG programme

Project E looks at environmental sustainability issues in relation to both pbb Group’s business activities (lending and funding in particular) and the footprint left by business operations themselves.

pbb Group aims to create transparency on the impact of its activities on an ongoing basis, both with regard to its own portfolio and with regard to the ecological footprint of its business operations. It is also aiming to expand the ESG data it collects, and its ESG reporting, within this context.

In particular, the Group actively supports the transformation of the real estate industry to achieve the general objective of climate neutrality by 2050. With a view to its clients and products, the Bank is focusing in particular on the further establishment of green loans. Other key objectives of pbb Group involve expanding green funding and reducing the Bank’s carbon footprint. Finally, the aim is to achieve continuous improvements in the sustainability ratings awarded by the relevant rating agencies.

Going forward, pbb Group will be defining specific KPIs, KRIs and targets and incorporating these into the management process – e.g. a target value for the share of the overall portfolio attributable to green financing, or the proportion of the portfolio made up of green issues. These indicators are designed to document the Bank’s own progress in the context of sustainability and to allow it to better address ESG-related opportunities, as well as physical and transition risks.

The identification and consideration of climate and environmental (“E”) risks and their integration into pbb Group’s risk management system is the focal point of the E(SG) Risks project, which also addresses regulatory expectations regarding the handling of these risks, in particular. The focus is on risks of losses and negative impacts due to climate change and the destruction of the environment. A distinction is made here between physical and transition risks. Physical risks result from the more frequent or acute occurrence of extreme weather events and chronic gradual climate change. Transition risks relate to direct or indirect implications of the process of adjusting to a lower-carbon and more environmentally sustainable economy. In view of the preparations for the ECB’s climate stress test, as well as the implementation of the ECB’s Guide on climate-related and environmental risks, pbb Group has started analysing its portfolio accordingly. Taking corresponding risks into account in individual lending decisions now forms an integral part of the lending process, for example avoiding risks associated with the financing of stranded assets.

The ESG Data project, which has a cross-divisional organisation, is focusing on putting an efficient ESG data infrastructure and architecture in place.

In Project S, the focus is on social issues, both within the Bank – including HR topics such as diversity, HR development or fair pay – and externally, for example, respect for human rights. A Code of Conduct sets out the binding ethical and legal framework for our behaviour when dealing with each other, as well as for our relationship with our clients and business partners, competitors and the general public. A Human Rights Guideline stipulates the indispensable principles for respecting and adhering to human rights. These relevant principles are reflected in the organisational, management, and control structures, as well as in our guidelines, instructions, and processes. Since July 2021, pbb Group has also subjected suppliers to a contractual obligation to comply with a Code of Conduct that includes economic, social and environmental responsibility aspects.

Project G focuses on ensuring good corporate governance and organisation within pbb Group. It also focuses on external governance aspects: preventing money laundering and terrorist financing, complying with financial sanctions and embargoes, as well as preventing fraud/other criminal acts, in particular preventing corruption.

pbb Group has put appropriate safeguards in place in this respect and, in addition to a Compliance Guideline and the Code of Conduct, has issued various other internal guidelines, instructions and process descriptions. Compliance is responsible for ensuring due and proper adherence to these requirements.

Responsibility for managing ESG risks within the Group is currently assigned to the various divisions, in line with the “Three Lines of Defence” (3 LoD) principle. As a general rule, the first line of defence 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 defence generally comprises Risk Management & Control and Compliance, with Legal, Human Resources and Information Technology assuming a support function. Group Internal Audit (GIA) is the third line of defence.

As an investment service provider, pbb Group also observes a whole range of regulations and requirements, in particular to ensure appropriate client/investor protection and, consequently, also to safeguard its own reputation. This is consistent with pbb Group’s commitment to strategic client orientation.

The regulatory requirements that apply to identifying and managing external governance and social risks are likely to be elaborated in greater detail. Where they are relevant to its business model, pbb Group will take these requirements into account by defining appropriate S/G sustainability criteria which it will continue to develop and establish in the new business process.

In June 2021, the Management Board also established an ESG Committee to replace the CSR Committee it had set up in October 2017. This specialist committee is responsible for dealing with ESG topics and ESG risk within pbb Group. The idea is to ensure that sustainability aspects are given even greater consideration and are firmly established at Management Board level. The ESG Committee comprises the full Management Board, as well as the heads of Communications, Compliance, Human Resources, Information Technology, Property Analysis & Valuation, Credit Risk Management, Treasury, Risk Management & Control, Loan Markets and Sales Germany. It also includes the members of the ESG programme management team and the heads of the various ESG sub-projects, as well as the ESG Communication and Disclosure sub-projects. The ESG Committee is primarily responsible for elaborating an ESG business and risk strategy and for monitoring the corresponding implementation measures within pbb Group. The ESG business and risk strategy is to take the following three aspects into account: regula-

tory and statutory requirements, expectations of investors, clients and other stakeholders that emerge on the market or are consistent with best practice, as well as any resulting opportunities and risks. The ESG Committee also develops the ESG targets and the measures required to achieve them. The overriding objective is to ensure compliance with the minimum statutory and regulatory requirements. The ESG Committee meets at quarterly intervals.

The Management Board also appointed an ESG programme management team in July 2021, which is responsible for supporting the ESG Committee and preparing the resolutions to be passed by the ESG Committee. The remit of the ESG programme management team includes, in particular

- > the central, ongoing identification of all ESG topics, as well as the statutory/regulatory requirements and the expectations of investors, clients and other stakeholders that emerge on the market or are consistent with best practice,
- > the central overall coordination, across all work areas, of pbb Group's ESG activities and measures as adopted by the ESG Committee,
- > defining, developing and refining proposals for the Group-wide ESG strategy, taking ESG risks, opportunities and fundamental regulatory/statutory requirements into account,
- > central management in the development of an overarching ESG data model and
- > the central coordination of regulatory enquiries on ESG issues (e.g. submitted by the ECB) and corresponding reports.

Other overarching issues are addressed in the ESG Strategy, ESG Communication & Disclosure and ESG Planning & Portfolio working groups. Milestones have been defined for the core results of each project and each working group. These are designed, in particular, to ensure the timely fulfilment of regulatory requirements, but also the achievement of the key performance indicators/key risk indicators (KPIs/KRIs) defined by the Bank itself, and will be adjusted to reflect any changes in the overall conditions.

Responsibility for the overall coordination and management of the projects and working groups lies with the ESG programme management team, which is supported by an ESG Expert Group bringing together lead representatives from the projects and working groups. In addition, the Green Financing Committee provides advice on green financing and funding.

PBB AS A PROVIDER OF FINANCING FOR THE TRANSFORMATION PROCESS

The need to transform the real economy and the real estate industry will require substantial investment on the part of pbb Group's clients, creating significant business potential, but also giving rise to challenges. In future, pbb Group aims to act not only as a lender, but also as a transformation partner for its clients and the commercial real estate industry. With this in mind, the Group has set itself the goal of understanding both the opportunities and challenges facing its clients in the context of sustainability and the associated pressure to transform in line with its strategic client orientation, and of supporting its clients as an active partner in this transformation process, also making use of its extensive network. This includes providing support for financing the acquisition of green properties and green developments, but in particular transformation projects, such as refurbishment work and work to improve the energy efficiency of existing buildings. Green loan financing has been established as a key basis and has been available to clients as a new product since 2021.

pbb Group aims to take specific measures to back up its stated ambitions. The initial focus is on meeting all common client needs in the context of sustainability and sustainable financial solutions. Where pbb Group has a chance to set itself apart from its peers by offering selected additional products and services, it takes a proactive approach to examining their introduction. This includes investigating the introduction of further advisory and other services in the context of sustainable lending (“advisory led lending”), including the question of possible partnerships. In order to achieve this, the Bank plans to expand its internal “E” expertise in the real estate arena, as well as scoring and potential analysis, also complementing it by entering into partnerships.

pbb Group is also looking into the introduction of further innovative products, such as transformation loans for energy-efficient property refurbishment, or supplementary services/tools and incentives for property owners in the context of these transformation loans, on an ongoing basis.

In order to achieve transparency regarding the transformation of the lending portfolio and to facilitate quantitative targets, as well as active management, pbb Group is creating the pool of data and technical infrastructure required for this purpose.

SUSTAINABLE PORTFOLIO

When it comes to financing commercial real estate or public infrastructure projects, ESG aspects play a key role alongside commercial aspects. Taking these ESG aspects into account not only makes a positive contribution to the overarching sustainability targets, but also serves to help avoid ESG/sustainability risks.

As a result, pbb Group is aiming to systematically increase the share of ESG-compliant financing in its lending portfolio. This refers, in particular, to the share of financing that is provided for sustainable buildings.

A key measure was implemented in this context in 2021 with the development and market launch of a concept for financing green buildings based on the EU Taxonomy. pbb Group intends to increase the proportion of green assets in the portfolio considerably over the next few years and define corresponding targets.

On the liabilities side, pbb Group also obtains funding through green bonds, helping it to respond to the growing demand for green investments. The aim is to further establish pbb Group as an issuer in this segment and to increase the share of the funding volume attributable to green bonds in tandem with the relevant asset volume.

Materiality Analysis

In 2019, pbb Group carried out an extensive materiality analysis to identify those aspects of sustainability that are material for pbb Group and its stakeholders; the analysis was reviewed in 2020 and 2021 to check its validity and make any necessary adjustments. This process was based primarily on the ongoing dialogue with internal and external stakeholder groups.

In addition to the topics of employee matters and social concerns, corporate governance and environmental issues, particular emphasis was placed once more on the identification of industry-specific and pbb Group-specific aspects.

The assessments of the topics and aspects with regard to business relevance and the impact of business activities, as well as their classification along the value chain, remain largely unchanged with the exception of environmental issues. In line with pbb Group's philosophy and in response to stakeholder expectations, the focus in 2021 was not only on calculating the Group's own environmental footprint, but also on assessing the sustainability of its portfolio. This means that both upstream and downstream activities were assigned a higher weighting in the context of environmental issues than in previous years.

Environmental concerns in the lending business are still classified as material in line with pbb's business activities. This applies in terms of both business relevance and business impact. This topic is addressed separately in the section entitled "Sustainable financing solutions". By contrast, environmental concerns referring to the consumption of resources caused specifically by pbb Group are not classified as material in the materiality analysis. Nevertheless, pbb Group has opted to report on this aspect on a voluntary basis due to its importance for stakeholders as mentioned above.

The following topics and aspects were identified as material:

Topics	Aspects
Industry-specific aspects	Client orientation Sustainable financing solutions Risk management
Corporate governance	Compliance Human rights
Social matters	Considering social implications of business partner choices
Employee matters	Remuneration and employee benefits Working environment Training and continuing professional development

Regarding the influence on pbb Group's business activities, the ability of pbb Group to influence the aspects, as well as regarding the stakeholder relevance, the materiality analysis yielded the following results:

Industry-specific aspects, corporate governance aspects and employee matters have the largest impact on pbb Group's business activities, whilst the impact of environmental aspects, i.e. the resources consumed by pbb Group itself, is smaller in comparison due to the business model.

The most important industry-specific aspects are client orientation and sustainable financing solutions, as well as sustainable risk management. These aspects significantly impact the business activities of pbb Group. At the same time, it is precisely these topics or aspects that can also be influenced relatively effectively by pbb Group. The same applies to corporate governance aspects, compliance and human rights.

With regard to employee matters, the following aspects bear the highest relevance: the working environment, training and continuing professional development, remuneration and employee benefits, and occupational safety and health promotion. Even though these aspects also have a significant impact on the Bank's business activities, pbb Group only recognises relatively limited possibilities of influence.

Stakeholders considered the aspects of compliance and client orientation to be especially relevant, whilst the relevance of all other topics was only classified as medium.

Our analysis revealed that it is material to our stakeholders that we consider social implications of business partner choices; it is not material, however, from a business model point of view.

Within the scope of employee matters, pbb Group also reports on the aspects of diversity and occupational safety on a voluntary basis. This is because these aspects are particularly important for our society, employees and environment stakeholder groups. Against the background of the COVID-19 pandemic, the occupational safety aspect is especially relevant.

In addition, in the context of the materiality analysis, the relevant aspects along the value chain were categorised, and the potential influence of pbb Group was assessed. pbb Group provides a large part of its services spanning the entire value chain within commercial real estate finance and public investment finance itself, primarily procuring the funds for the lending business by issuing Pfandbriefe and unsecured bonds, as well as with its retail deposit-taking business with private clients. In the lending business, pbb Group initiates business transactions, provides loan coverage along the entire loan lifecycle up until loan repayment, or, if applicable, the realisation of collateral. Therefore, pbb Group sees the largest potential influence here.

Potential influence on up- and downstream activities of the value chain, on the other hand, are limited to only a few aspects. Upstream activities consist of services rendered by suppliers and service providers. Due to pbb Group's business model, these activities are, however, of only minor significance overall. The human rights aspect is material for pbb Group; nevertheless, the Bank sees few possibilities for influence.

The key downstream activities include especially the use and further utilisation of real estate objects and infrastructure projects financed by pbb Group. In this case, pbb Group recognises a high level of potential influence by implementing sustainable financing solutions.

Risks and Opportunities

Risks and opportunities resulting from sustainability aspects are of particular importance for pbb Group. The Bank has identified climate and environmental aspects (physical and transitional environmental factors), as well as governance factors, as being particularly relevant.

Risks arise from the exposure of the financed properties and infrastructure projects to physical risks, as well as from transitional factors such as sub-standard energy efficiency and the use of construction methods that are not sustainable due to the building materials used and types of use, i.e. along the entire value chain. In addition to the risks associated with physical and transition risk factors for pbb Group's portfolio and business activities, industry-specific aspects also give rise to opportunities, in particular in connection with the offering of sustainable financing solutions ("green loans") as well as the issue of green bonds. Sustainable financing solutions reduce the probability of loan defaults, increase the value of the collateral furnished and prevent potential reputational damage.

Risks also arise from the insufficient consideration of governance factors, which could result in potential financial damage due to compliance incidents, or in reputational damage. At the same time, this is the area with the greatest opportunities for pbb Group. Client orientation and internal governance are fundamental success factors for pbb Group in order to secure the financing portfolio, and give the Bank the opportunity to set itself apart from its peers, in positive terms, in a direct comparison.

While social factors currently play less of a role from a risk perspective, the qualifications and satisfaction of our employees are the main foundation for the quality of their work, and thus for the Company's potential. Along the value chain, potential social risks are mainly related to own business activities; on the other hand, pbb Group classifies risks from upstream activities provided by suppliers and service providers as low. pbb Group's sustainability strategy is designed to minimise sustainability risks to the greatest extent possible, whilst making use of the opportunities arising.

In the following, we will illustrate the material sustainability topics and aspects.

Industry-specific Aspects

CLIENT ORIENTATION

Business activities are focused on meeting client needs and we continuously strive to reach the best possible balance between client demands and our own interests.

Client orientation is a key success factor for pbb Group in order to generate a business portfolio – through new commitments and loan extensions – that matches the Group's risk and return profile. For pbb, client orientation goes beyond processes and structures – it is the top priority in the everyday business of every employee, and a way of life. In this context, the following aspects are crucial: client dialogue, client proximity, and a relationship based on trust between pbb Group and its clients.

Client proximity

pbb Group maintains a regular and intensive exchange of views with its clients in order to identify their needs, be it in one-on-one talks in the context of long-standing business relationships, or at events. For instance, pbb regularly attends the real estate trade fairs MIPIM in Cannes and Expo Real in Munich. Moreover, pbb organises regular events for clients in commercial real estate finance and public investment finance.

Since the beginning of the COVID 19 pandemic, however, direct client contact has been limited. Face-to-face meetings are a much rarer occurrence. The major real estate trade fairs and a large number of client events were also held on a significantly reduced scale, or as digital or hybrid events. In addition, individual client events were held for professional real estate clients and experts, as well as for Public Investment Finance clients. As infection rates remain high, it can be assumed that the situation will be similar in 2022.

Every market has its own local idiosyncrasies. Detailed knowledge about individual market conditions and developments allows pbb to better understand client needs, and to hold an in-depth dialogue with its clients. In order to stay up to date, pbb Group maintains a comprehensive network of sales offices in Germany and other important locations throughout Europe, as well as a representative office in New York. Overall, pbb Group maintains ten sales offices.

Besides a strong local presence, pbb also features expert teams for selected real estate financing aspects; in particular, property development, logistics, retail, and residential topics, hotels – as well as real estate for social purposes, real estate asset management, micro-apartments, and parking spaces. This integrates existing know-how within the Bank, builds up more in-depth knowledge in a targeted manner, and provides expert opinions when needed. The teams consist of experts from different areas of specialisation, and are staffed internationally. Among their regular members are employees from Real Estate Finance, Credit Risk Management, Property Analysis & Valuation, and from the Legal department. The competent decision-making bodies may resolve that the respective expert teams become involved in certain new business processes as consultants, or to provide expert opinions on certain aspects. The Developments and Hotels expert teams get involved at an early stage, immediately after the New Deal Committee (NDC) approves the respective deal.

pbb Group sees itself as a solid and reliable partner that supports its clients by providing sound expertise. Based on its profound market and product knowledge, pbb Group enters into a highly specialised dialogue with its clients, aiming at individual and tailor-made financial solutions. Given the early involvement – and structural embedding – of Risk Management (for details, please refer to the Risk and Opportunity Report in pbb Group's Combined Management Report 2021) and the Property Analysis & Valuation department for real estate valuation purposes, pbb intends to identify, and mitigate, potential risks at an early stage.

In March 2021, pbb Group launched the pbb client portal as a digital client interface. This improves the options open to pbb for interacting with its clients, creating greater transparency in the lending process and streamlining document management in both new and existing business. The portal was developed in close consultation with pbb's clients, who contributed their experience, requests and suggestions as part of the development process. The portal allows clients to consult an overview of their loan agreements and their fulfilment status at any time. The document management system is consistent with high data protection standards.

Client confidence and principles of conduct

Client confidence plays another crucial role in pbb's business activities. pbb Group has committed itself to ensuring confidentiality of information about clients, and of all transaction data, using appropriate security standards (cf. the chapter "Data protection"). Since its establishment, pbb Group has used a Code of Conduct, which comprises the non-negotiable requirements that pbb expects from all its employees when dealing with clients, or other stakeholders. The Code of Conduct provides more than just guidance – it is a binding part of each employee's employment contract, forming the basis for all other framework regulations within pbb Group.

The Code of Conduct is implicitly applied to all clients, prospective clients or other business partners (e.g. suppliers). Should an employee become aware of any indications that a client, prospective client or other business partner (e.g. a supplier) may be involved in illegal activities, or activities that could damage our reputation, they must inform the competent Member of the Management Board as well as Compliance. The competent Member of the Management Board will initiate a review of every single case – in cooperation with Compliance, and other divisions, if required.

Successful collaboration is characterised by trust and respect. This also means that pbb Group does its utmost to support its clients even if they are facing financial difficulties, and helps them to overcome these difficulties. pbb Group has established a process with various measures aimed at enabling borrowers to repay their loans in the long term.

The COVID-19 pandemic is having a major impact on national and international economic activity and has also left some of pbb Group's clients up against financial challenges through no fault of their own. In response to this development, pbb Group has developed comprehensive guidelines on how to deal with client enquiries in this regard, and what measures can be taken to provide clients with support. The aim is to arrive at solutions that are acceptable for both the client and pbb Group so as to stabilise the loan. Possible measures include deferring repayments, extending loan terms or temporarily suspending/adjusting contractually agreed covenants. As each and every case is different, intensive dialogue with the client is important in order to identify individual solutions.

Suppliers

A purchasing policy standardises all purchase processes within pbb Group. The Group has also implemented the "Compliance Caution Framework", or CCF-Scout for short. This IT-based search engine is used to check business partners, counterparties, buyers or suppliers before the Bank enters into a new business relationship, or to monitor existing relationships. All entries have been collected by a respected external service provider, which draws upon worldwide sanctions lists collated from publicly available sources, such as the EU, OFAC, or the German Bundesbank. Furthermore, CCF Scout comprises relevant information from press releases and media content.

pbb Group also introduced a Code of Conduct for suppliers in 2021, requiring business partners not only to comply with existing laws, but also to act in an economically, socially and environmentally responsible manner.

Complaints management

Regarding client confidence, fair treatment is another crucial factor. pbb Group is committed to openness, professionalism and excellence when providing services to clients. This also includes a high performance standard as well as appropriate complaints management that ensures the focused and rapid processing of complaints. Complaints received not only offer the chance to amend mistakes, and to restore client satisfaction – they also provide important clues to organisational weaknesses.

Therefore, pbb Group takes every complaint seriously, handles them carefully, and documents them irrespective of background or appropriateness. For this purpose, pbb Group implemented a dedicated process in order to ensure that complaints are dealt with effectively – this process has been laid out in an internal guideline, which is binding for all employees. For information on how to submit a complaint, regarding the timeline of the complaints procedure, and which alternative dispute settlement procedures are available, clients and other interested parties can access the various websites of pbb Group (www.pfandbriefbank.com and www.pbbdirekt.com). The competent pbb Group office collects all complaints, reviews them on a regular basis, and provides reports to the Management Board and the Supervisory Board, amongst others. In 2020 and 2021, the number of complaints was significantly above the levels seen in previous years. This development was down to a marketing campaign at pbb direkt targeted at new clients which led to misunderstandings with existing clients. As a result, processes for campaigns to attract fresh funds were improved. Adjusted for the aforementioned, the number of complaints regarding other topics continued to lie in the low double-digit range.

SUSTAINABLE FINANCING SOLUTIONS

pbb initiatives

As a specialist bank, pbb Group finances commercial real estate projects as well as infrastructure projects of the public sector. pbb Group sets high standards when granting loans – also in terms of sustainability. As a general rule, pbb Group's actions are always within the boundaries set by legal, and – in particular – the applicable supervisory requirements.

Furthermore, pbb Group has laid out additional ethical and moral standards in its Code of Conduct, which emphasises sustainable behaviour. pbb Group does not support business practices that could harm our reputation or give rise to the suspicion that the client is acting unlawfully, or is violating our ethical and moral standards. Illegal activities or activities that could otherwise damage the Group's reputation include:

- > Money laundering
- > Financing terrorism
- > Drug trafficking
- > Illegal weapons trade
- > Violation of human rights
- > Human trafficking
- > Smuggling of goods
- > Bribery of government officials or other officials
- > Granting and/or accepting undue benefits
- > Tax offences
- > Illegal or unauthorised use of property, including land ownership
- > Market abuse, such as market manipulation or insider trading
- > All forms of organised crime
- > Environmental pollution, including excessive emissions, illegal waste disposal as well as any type of falsification of documents associated therewith
- > Illegal use of labour, including forced labour and child labour

The above list is not exhaustive, yet representative of pbb Group's commitment to distance itself from any illegal practices or any other activities that may damage its reputation. Our ethical principles and guidelines are above income respectively return from individual transactions.

When it comes to financing commercial construction projects or existing properties, ecological aspects also play a key role alongside commercial aspects.

If pbb Group were to ignore the principle of sustainability in this context, this would give rise to substantial potential risks for pbb Group itself with regard to interest and principal payments, or the repayment of loans granted. Significant financial risks would also arise for clients and real estate investors, as in the event of a loss, the equity they invested would be at risk of being drawn upon before the loan granted by pbb Group. Therefore, the interests of pbb Group are in line with general sustainability interests.

By integrating a clearly defined and carefully designed due diligence process into the credit approval procedures, involving the Management Board, pbb Group also integrates the principle of economic sustainability.

In order to ensure financing sustainability, close cooperation between Sales, Risk Management, as well as Property Analysis & Valuation, is required at an early stage of the credit process within pbb Group – which has been laid out in the corresponding process structure and internal guidelines. pbb Group maintains a dedicated department of real estate analysts, and cooperates with external real estate experts.

In the case of sites where contamination is suspected, pbb carries out additional research and usually obtains specialised expert opinions. In order to ensure the sustainability of properties yet to be financed, the in-house real estate analysts provide an assessment of the real estate regarding its economic, structural and environmental risks. The assessment result – including any conspicuous or unusual features – are summarised in a property report, which is used, among other factors, to take the credit decision. Furthermore, in the corresponding valuation opinion, the long-term stability of the property value is explicitly considered through the lending value concept.

In addition, the basis and time intervals for credit decision reviews have been clearly laid down. The same applies to the inspection of properties – our guidelines provide unambiguous instructions as to when (and by whom) these inspections shall be conducted. pbb applies particularly rigorous monitoring and supervisory processes for new buildings as part of so-called development financings, and for construction measures within existing properties as part of what are known as investment financings. Our monitoring processes also comprise working conditions as well as human rights. Given the close cooperation of all pbb divisions, in particular the involvement of Property Analysis & Valuation at an early stage, pbb Group efficiently selects its new business exposure, which is essential for the long-term success of the Group and its clients. Furthermore, this approach allows us to avoid negative repercussions for the environment and society as a whole.

Ensuring long-term income streams is generally based on the valuation of relevant aspects, such as economic, demographic and sociographic factors as well as real estate and financing considerations, but also physical and transitional environmental factors. The real estate valuation and risk analysis process looks not only at economic and structural sustainability aspects, but also explicitly considers environmental aspects, such as a building's energy efficiency, building components under stress and potential contaminated sites, but also the physical and transition risks associated with climate change.

Against the backdrop of the Paris Climate Agreement of 2015, climate protection, the mitigation of climate change and adaptation to its consequences have also become more of a focus for the financial services sector. Against this backdrop and in view of its business model, pbb Group has defined sustainable finance as a central pillar of its holistic ESG strategy, allowing it to promote sustainability in the financial system, both in its core lending business and in its funding activities.

Within this context, pbb Group is further expanding its activities to record data on sustainability criteria for the properties it finances. In addition to energy certifications, it also records certifications based on the various green building standards, as well as other sustainability data, such as soil surface sealing, type of heating, material recycling, proximity to public transport or biodiversity. The data is recorded for all new commitments and as part of the regular credit reviews. In the long term, the aim is also to record data for the existing portfolio.

Based on this, pbb Group has developed a Green Bond Framework in 2020 which follows the ICMA Green Bond Principles and considers real estate with comparably low energy consumption or very good building certification. The properties identified as per these criteria serve as a reference portfolio for the issuance of green bonds by pbb Group. The properties are selected based on a unanimous resolution passed by the Green Bond Committee. In accordance with pbb Group's Green Bond Framework, green bonds can be issued as Pfandbriefe and senior unsecured (preferred and non-preferred) bonds. In 2021, pbb Group issued two unsecured senior preferred green benchmark bonds, each with an issue volume of €500 million. By issuing green bonds, pbb Group enables investors to make targeted investments in sustainable capital market products.

pbb Group has been offering green loans as a new credit product since the fourth quarter of 2021. As no established market standard for green loans has emerged to date, pbb Group has developed a Green Loan Framework geared towards two elements: a standalone scoring model or the EU Taxonomy. The pbb scoring model allows for the assessment of real estate using specific criteria; from a defined score upwards, real estate qualifies for green lending. As an alternative, pbb grants green loans to buildings compliant with the EU Taxonomy. pbb Group's scoring model takes three dimensions into account: the energy efficiency of a building, building certifications, and further sustainability factors. The latter include factors such as soil surface sealing or the availability of, and distance to, the public transportation network, as well as the use of recycled materials for construction or the type of heating and use of green electricity. Three green loans totalling €237.25 million were issued in 2021. Two of the properties financed using a green loan are located in Germany, with one located in France.

In Public Investment Finance, pbb Group contributes to society by financing investments for the provision and improvement of public infrastructure.

Financing public infrastructure not only facilitates broader social participation, but also creates affordable housing, broad access to education and culture, as well as a state-of-the-art healthcare system based on the principle of solidarity. In addition, the public sector receives support in the provision of basic public services and utilities such as energy, water, public transport and the Internet, as well as support with investments in the environmentally sound disposal of wastewater and waste, the expansion of a circular economy based on recycling, and moves to protect the population against environmental risks due to changing weather and climatic conditions.

Public-sector financing also helps transform public infrastructure to create more energy-efficient buildings and facilities that consume fewer resources.

In 2021, for example, pbb Group financed the modernisation and expansion of healthcare facilities, such as public regional and university hospitals, the construction of new multi-purpose halls, swimming and thermal spa centres for public and school sports, etc. It also helps finance investments aimed at meeting the very latest environmental standards through the modernisation of a waste incineration plant and the construction of a new sorting/recycling centre and a special treatment plant for waste from the healthcare sector.

This underscores pbb Group's commitment to the principle of sustainability with a positive social and environmental impact in its business model as a financing partner for the public sector, i.e. federal states, local authorities and municipal enterprises.

pbb Group has made a commitment to making an active contribution to further developing and promoting sustainability standards, including beyond the Bank. For this reason, the Group is active in numerous working groups: in the real estate (financing) business, pbb Group takes part in working groups of the Association of German Pfandbrief Banks (vdp), as well as in the initiative launched by the European Mortgage Federation (EMF) and the European Covered Bond Council (ECBC) to determine energy efficiency of buildings in Europe. 2021 saw pbb Group join the ESG Circle of Real Estate (ECORE), which is in the process of developing a scoring standard to make sustainability in real estate portfolios transparent, measurable and comparable. Through its participation in working groups as well as in various association bodies, the Group succeeded in further advancing sustainability standards:

Thanks to the active involvement of pbb Group, the vdp valuation committee determined energy-efficiency criteria (as part of a property and market rating) which can be included as additional criteria into vdp's transaction database.

Disclosures based on the EU Taxonomy Regulation

The EU Taxonomy Regulation came into force in July 2021. It is one of the central measures of the European Commission's action plan on sustainable growth, which has the aim of reducing carbon emissions and promoting decarbonisation across Europe.

The Regulation sets out uniform classification criteria for environmentally sustainable economic activities in order to make companies' sustainability transparent and to provide an objective point of comparison. Taxonomy-aligned economic activities are considered to be environmentally sustainable. Taxonomy-eligible economic activities, on the other hand, are included in the EU Taxonomy, but this does not necessarily mean that they are sustainable. An economic activity can only be taxonomy-aligned if it is also taxonomy-eligible.

Key indicators show the degree of sustainability. For the banking sector, these include, in particular, the "green asset ratios", which are to be disclosed for the first time as at the reporting date of 31 December 2023. Mandatory first-time disclosure is staggered. As of the reporting date of 31 December 2021, banks initially have to publish seven selected key figures showing the share of total assets with regard to taxonomy eligibility, among other things, as well as making qualitative disclosures. This means that the first step only involves indicating whether a risk exposure could be environmentally sustainable as defined by the Taxonomy Regulation. It is not yet necessary to disclose whether the risk exposures are also taxonomy-aligned, i.e. are, in fact, environmentally sustainable.

The statutory requirements are ambiguous with regard to some aspects of the key figures to be disclosed, meaning that they require interpretation by banks. The current assumptions applied by pbb Group in this context are described below. It cannot be ruled out a scenario in which the

interpretation of the Taxonomy Regulation and measures to close loopholes could lead to different results when calculating the ratios in the future.

Based on pbb Group's interpretation, the denominator of the seven ratios to be reported comprises total assets based on gross carrying amounts. In accordance with IFRS 9, the gross carrying amount corresponds to the amortised cost before adjusting for any loss allowance. According to pbb Group's interpretation, the denominator of the seven ratios also includes risk exposures to central governments, central banks and supranational issuers, although these are not included in the denominator of the green asset ratios to be reported from 2024 onwards.

The seven ratios reported do not add up to 100%, as not all of pbb Group's assets can be assigned to one of the seven ratios. As a result, they are not shown in any of the numerators, but in the denominator. For example, non-financial instruments such as property, plant and equipment or intangible assets, as well as risk exposures to regional governments, are not included in any of the numerators.

pbb Group has generated the relevant assets and the corresponding gross carrying amounts used to calculate the seven ratios from its central cross-divisional data pool. This data pool includes the individual transactions at a granular level with numerous attributes. Exposures were allocated, among other things, on the basis of the regulatory Financial Reporting (FinRep), a reporting format standardised by the Committee of Banking Supervisors and the European Banking Authority (EBA) for financial reporting by financial and credit institutions to the supervisory authority.

The ratios that have to be reported as at 31 December 2021 are:

Ratio 1: Proportion of taxonomy-eligible economic activities

$$\text{Ratio 1: } \frac{\text{Risk exposures to taxonomy-eligible economic activities}}{\text{Total assets (gross carrying amounts)}} = \frac{\text{€ 126 million}}{\text{€ 58,744 million}} = 0.2\%$$

The assessment of taxonomy eligibility is based on the type of debtor. A distinction is made between financial companies, non-financial companies, public-sector entities and private households.

Exposures to the corporate sector are only taxonomy-eligible if the direct borrower or issuer itself is required to report non-financial information under Directive 2013/34/EU, Articles 19(a) or 29(a). This does not apply, for example, to small and medium-sized enterprises with fewer than 500 employees or to clients based outside of the EU. Most of pbb Group's borrowers do not meet the criteria set out in Articles 19(a) or 29(a) of Directive 2013/34/EU. As a result, large parts of pbb Group's financial assets are not currently taxonomy-eligible; this could change from 2025 onwards after a further review by the EU. According to the EU Taxonomy Regulation, the purpose of the financing, e.g. whether the property being financed meets the sustainability requirements, is irrelevant. This means that, from pbb Group's perspective, the information on taxonomy eligibility and, in future, taxonomy alignment to be reported in the green asset ratios is of no informational value with regard to the actual share of financing associated with environmentally sustainable economic activities.

pbb Group assumes that taxonomy eligibility would be considerably higher if entities not covered by the reporting requirements set out in Articles 19(a) or 29(a) of Directive 2013/34/EU were to be included. If this were the case, pbb Group estimates that the vast majority of its commercial real estate financing exposures, with a gross carrying amount of €27,511 million, would be taxonomy-eligible.

When it comes to assessing the taxonomy eligibility of financial assets vis-à-vis non-financial companies subject to the reporting requirements set out in Articles 19(a) or 29(a) of Directive 2013/34/EU, the purpose of the financing is relevant. If no specific purpose has been financed, the proportion of the borrower's taxonomy-eligible economic activities is relevant. A lack of appropriate data meant that pbb Group could only apply estimates for the 2021 financial year. These estimates are, however, explicitly excluded by the European Commission for use in mandatory disclosures. As a result, the taxonomy eligibility of these exposures as at 31 December 2021 can only be assigned a value of 0%.

pbb Group expects the taxonomy eligibility of some risk exposures to be higher in the future once key taxonomy eligibility figures have been published by borrowers and issuers and can be used.

The modified version of ratio 1 shows the proportion of taxonomy-eligible risk exposures made up of covered assets. The covered assets make up the denominator of the green asset ratios to be reported in the future. Unlike ratio 1, the denominator used in modified ratio 1 excludes risk exposures to central governments, central banks and supranational issuers. This results in a denominator of €42,767 million and a 0.3% share of taxonomy-eligible risk exposures.

Ratio 2: Proportion of taxonomy-ineligible economic activities

$$\text{Ratio 2: } \frac{\text{Risk exposures to taxonomy-ineligible economic activities}}{\text{Total assets (gross carryig amounts)}} = \frac{\text{€ 6,114 million}}{\text{€ 58,744 million}} = 10.4\%$$

The numerator used in ratio 2 shows all risk exposures to taxonomy-ineligible economic activities. This ratio includes, among other things, risk exposures that have to be assigned a taxonomy eligibility of 0% because data is not currently available.

The modified version of ratio 2 shows the proportion of taxonomy-ineligible risk exposures made up of covered assets. The covered assets make up the denominator of the green asset ratios to be reported in the future. Unlike ratio 2, the denominator used in modified ratio 2 excludes risk exposures to central governments, central banks and supranational issuers. This results in a denominator of €42,767 million and a 14.3% share of taxonomy-ineligible risk exposures.

Ratio 3: Risk exposures to governments, central banks and supranational issuers

$$\text{Ratio 3: } \frac{\text{Financial assets in Article 7(1) of the EU Taxonomy Regulation}}{\text{Total assets (gross carryig amounts)}} = \frac{\text{€ 15,977 million}}{\text{€ 58,744 million}} = 27.2\%$$

Risk exposures to central governments, central banks and supranational issuers are to be reported in the numerator. These exposures are not to be included in the green asset ratio to be reported in the future, neither in the numerator nor in the denominator. Central governments are defined in accordance with the European System of Accounts (ESA) 2010. As the EU Taxonomy does not set out any statutory provisions governing how risk exposures to regional governments are to be treated, pbb Group does not allocate these exposures to any numerator of the seven ratios.

Ratio 4: Derivatives

Ratio 4:	Financial assets in Article 7(2) of the EU Taxonomy Regulation	€ 1,553 million	= 2.6%
	Total assets (gross carryig amounts)	€ 58,744 million	

Derivatives are to be reported in the numerator. As pbb Group does not have any trading portfolio, the numerator used in this ratio includes stand-alone derivatives and hedging derivatives. Although pbb Group's stand-alone derivatives are not included in hedge accounting in accordance with IAS 39, they nevertheless form a hedging relationship. The derivatives are only to be included in the denominator of the green asset ratio to be reported in the future, meaning that they will have a negative impact on the green asset ratio.

Ratio 5: Risk exposures to companies not obliged to report non-financial information

Ratio 5:	Financial assets in Article 7(3) of the EU Taxonomy Regulation	€ 30,037 million	= 51.1%
	Total assets (gross carryig amounts)	€ 58,744 million	

The numerator is to show risk exposures to companies that are not required to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU. These risk exposures cannot be taxonomy-eligible under the EU Taxonomy Regulation. Within pbb Group, this applies to the majority of financing provided to non-financial companies; in particular, it applies to the vast majority of commercial real estate financing exposures.

Ratio 6: Trading portfolio

Ratio 6:	Trading portfolio	€ 0 million	= 0.0%
	Total assets (gross carryig amounts)	€ 58,744 million	

pbb Group does not maintain a trading book for securities or derivatives portfolios held to realise short-term gains. As a result, the numerator to be used in the sixth ratio is €0.

Ratio 7: Short-term interbank loans

Ratio 7:	Short-term interbank loans	€ 1,059 million	= 1.8%
	Total assets (gross carryig amounts)	€ 58,744 million	

Short-term interbank loans are loans and advances to banks repayable on demand or with an unspecified term. The numerator corresponds to the item "Other demand deposits" in the regulatory Financial Reporting (FinRep). The exposures are only to be included in the denominator of the green asset ratio to be reported in the future, meaning that they will have a negative impact on the green asset ratio.

RISK MANAGEMENT

pbb Group defines ESG risks as the risks of a negative financial impact on the institution resulting from current or anticipated effects of ESG factors¹ on its counterparties or invested assets². ESG risk also encompasses negative financial, economic and social impacts that could arise from the activities of the institution itself. The environmental, social and governance compo-

¹ ESG factors are environmental, social or governance aspects that could have a positive or negative impact on the financial performance or solvency of a company, sovereign or individual.

² ESG risks are defined in accordance with EBA/REP/2021/18 and the ECB guide on climate-related and environmental risks.

nents included in ESG risk are firmly established in both the business and risk strategy of pbb Group.

In order to ensure that ESG risks are given adequate consideration in the Bank's risk management processes, an identification and assessment process for ESG risk drivers is being established as a firm component of the annual risk inventory. Identifying and describing the possible transmission channels of potential ESG risk factors reveals the extent to which a company's economic and financial activities are affected (financial materiality/outside-in), or how a company's activities impact ESG factors (environmental and social materiality/inside-out) and in what time frame. The impact of the potential ESG risk drivers identified on the individual risk types is examined and assessed as the final step. All of the relevant experts are involved in the individual steps in the assessment process, in particular those with lending and property valuation expertise, experts from HR, Legal and Compliance, as well as from Risk Management & Control.

The results of the risk inventory with regard to ESG materiality are recorded in a separate ESG assessment register and serve as the basis for the development of the management strategy, including the definition of the ESG risk appetite as part of the risk strategy, and as the starting point for scenario analyses and stress tests.

As far as the physical environmental risk is concerned, the risk drivers of flooding, heavy rain, storm surge, hail, storm, tornado were classified as material for the Bank. External location-specific risk data was also used to a large extent when assessing the physical risk factors. The transitional environmental risk factors identified as relevant include pollution, contamination, property energy efficiency, carbon footprint (Scope 1, 2, 3 emissions), new regulations for the real estate sector/carbon pricing and fundamental market sentiment.

Key governance risk factors include insufficient integrity (money laundering, terrorist financing, etc.), insufficient compliance with disclosure of information rules and practices, insufficient internal corporate governance regarding own ESG/compliance risks, external ESG risks of counterparties, and insufficient incorporation of external ESG risks into business strategy/processes, internal governance and the risk management framework. Social risk factors were not identified as material.

These ESG risk factors have an impact on counterparty credit risk, operational risk, including potential reputational and liability risks, as well as business and strategic risk. No significant impact on market, liquidity or funding risk was identified. pbb Group is working on the full inclusion of ESG risk factors in the risk management tools for all affected risk types, including monitoring, reporting and quantification, as well as in the stress tests and scenario analyses.

Besides client focus, risk management constitutes another key element for pbb Group to secure its sustainable business performance. Risk management involves the standardised and systematic identification, measurement, limitation and monitoring of risks within pbb Group.

pbb Group aims to consider sustainability aspects within all its business activities, and to minimise the risk of negative consequences due to ESG risks. From a risk perspective, the focus is clearly on the options for exerting influence at all stages in the commercial real estate financing value chain, starting with fundraising and ranging from the initiation of business and the entire loan coverage process to repayment or also the realisation of collateral. Within pbb Group, the principle of environmental sustainability of the properties to be financed is based on close links between sales, credit and risk management, as well as the real estate experts, and is an integral part of the lending decision process³.

³ In 2021, pbb Group expanded its activities in relation to green issues and loans; cf. also "pbb Green Bond Framework"; "pbb Green Loan Framework"

The monitoring and management of environmental risk (outside-in perspective) is currently focusing on the aspects of avoidance and adaptation to climate change associated with the properties we finance. Both physical and transition risks are taken into account. Corresponding monitoring of both aspects is currently being tested as part of a transition phase in 2022. To take the non-financial aspects more into account when granting loans, pbb systematically gathers data on various sustainability criteria of its financed properties. The “E” criteria include, for example, energy consumption or green building certifications. pbb Group is currently working on expanding this list of sustainability criteria, developing it on an ongoing basis, recording the relevant data and integrating the results and data into its own IT landscape. pbb Group is thus increasingly gaining a better overview of the sustainability of its credit portfolio and the associated risks. The clear aim is to firmly establish the collection of data on sustainability criteria as part of the new business process.

The monitoring and management of social and governance risks is currently focusing primarily on governance indicators, such as the prevention of money laundering and terrorist financing, compliance with financial sanctions and embargoes, and fraud prevention / prevention of other criminal acts, particularly the prevention of corruption. pbb Group has put appropriate safeguards in place in this respect and, in addition to a Compliance Guideline and the Code of Conduct, has issued various other internal guidelines, instructions and process descriptions. Compliance is responsible for ensuring due and proper adherence to these requirements. As an investment service provider, pbb Group also observes a whole range of regulations and requirements, in particular to ensure appropriate client/investor protection and, consequently, also to safeguard its own reputation.

Specific risk indicators have been defined and assigned to the individual components for monitoring the various aspects of the Group’s own ESG risk. Based on a traffic light system, amber and red thresholds have been defined for these risk indicators and form the basis for compliance with the Bank’s own targets. As such, an eye is kept on employees’ use of resources (e.g. electricity, paper, company cars) and on business travel (e.g. train and air travel) to monitor the environmental footprint, whilst indicators on diversity, operational safety, and personnel development have been established to monitor the social risk. Governance risk is monitored by compliance-relevant cases.

Both the ESG risk indicators and the internal targets for the various aspects of ESG risk are continuously developed, enhanced and specified.

Risk indicator reporting is performed within the scope of the Key Risk Indicator (KRI) report for non-financial risks in the Risk Committee, to the Management Board and to the division heads on a quarterly basis. In addition, existing sustainability benchmarks in the form of external sustainability ratings are likewise an integral part of regular internal reporting to the Bank’s management.

Given its key importance for pbb Group, the risk management function is anchored as an integral component of the Group, both in terms of organisation and concerning processes. Please also refer to the Risk and Opportunity Report in the 2021 Annual Report for more detailed information on risks and opportunities identified for the various types of risk, within the scope of the risk management and risk control system implemented.

Corporate Governance

CODE OF CONDUCT AND ETHICAL PRINCIPLES

Transparent, fair, responsible and honest conduct – with the required degree of expertise, professionalism and integrity in dealings with one another, clients and business partners, competitors and the public – are deeply rooted in pbb Group, and require that the relevant legal, supervisory and internal obligations as well as other relevant laws and regulations are implemented and adhered to.

pbb Group's Code of Conduct sets out the ethical and legal framework as well as the non-negotiable standards the Group expects its employees to live by. The Code of Conduct provides more than just guidance – it is a binding part of each employee's employment contract, forming the basis for all other framework regulations within pbb Group. Amongst other things, the Code of Conduct offers very clear guidance on questions regarding relationships with clients, suppliers, shareholders, investors and competitors – as well as how to respond to conflicts of interest, bribery, the granting of advantages, or how to prevent money laundering and market abuse. The Code of Conduct is supplemented by pbb Group's separate Guidelines on Human Rights.

pbb Group commits not to support business practices that could harm our reputation or give rise to any suspicion that the Group assists clients or suppliers in violating its ethical standards or in breaking the law. The applicable law, as well as all the regulatory provisions in force in the various jurisdictions where pbb Group does business, form the basis for the entire corporate decision-making process and our day-to-day operations. They are complemented by internal regulations and detailed instructions. As a listed company, pbb adheres to the German Corporate Governance Code under application of the 'comply or explain' principle. This Code describes the legal requirements posed for managing and supervising German listed companies. It reflects current national and international developments, alongside standards of good and responsible corporate management.

COMPLIANCE

Compliance means ensuring adherence to statutory and regulatory provisions as well as other legal requirements. This holds especially true for legal requirements concerning the performance of securities services. Compliance with these requirements serves the goal of client/investor protection and, as a consequence, the protection of pbb's reputation. At the core of the norms pbb must adhere to lies the EU Market Abuse Regulation, the Capital Requirements Regulation, the German Banking Act, (Kreditwesengesetz – "KWG") the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"), and the regulations and guidelines based on these documents.

Compliance risks include sanctions, financial losses and reputational risks that may arise from violations of the above-mentioned rules. The Group takes any fraudulent act seriously, both for commercial reasons and because of its legal obligation to prevent such acts. pbb and its Group entities have devoted themselves to very high standards of honesty, openness and responsibility, applied both within the organisation and during all external business activities. Reliability and client trust are hugely important, which is why pbb Group's employees play an important role in this context. pbb Group has established a system that allows our internal staff – as well as external third parties – to blow the whistle on statutory violations and undesirable conduct.

pbb employees are bound by numerous internal protocols and instructions such as the Code of Conduct, but also guidelines on combating other criminal acts, on information security, on preventing money laundering and the financing of terrorism, on economic sanctions, as well as on competition law.

In pursuit of the goals of education and raising awareness amongst staff, all employees are obliged to take part in compliance training when they join the Bank and on a regular basis thereafter. These training sessions cover a variety of topics, including the prevention of money laundering and the financing of terrorism, competition law, combating other criminal acts as well as general compliance issues. Successful participation in these sessions is only certified following a test. pbb Group also conducts training sessions, seminars and workshops on demand to ensure that employees receive training that caters to their needs and aligns with pbb's business model.

Banks are bound by a plethora of legal, regulatory and administrative provisions that have been installed to provide clients and business partners with a high degree of security. pbb Group, in turn, has installed various processes to ensure compliance with these provisions.

To efficiently design an appropriate, continuous legal monitoring, pbb uses a workflow system. It allows for comprehensive and early identification of new versions of (or amendments to) relevant regulatory requirements and provisions. In addition, it provides assistance for the definition of appropriate measures as regards compliance with relevant rules and regulations, their implementation, and corresponding monitoring of implementation.

The harmonised purchasing policy stipulates that all relevant purchasing needs must be fulfilled through the IT-based purchasing and contracts management system, which also serves as the contracts database (including deadline management). Our purchasing policy also defines the multi-layer approval process, which includes the sourcing unit and is based on a pre-defined assignment of approval powers. Suppliers are regularly rated, allowing the Bank to rank and compare them, to monitor their performance, and talk openly about weak spots.

All compliance processes and regulations are continuously reviewed, allowing for a continuous adjustment to pbb Group's risk situation and permanent optimisation of the monitoring and control measures. The Management Board and the Supervisory Board's Audit Committee receive detailed reports on all Compliance-relevant topics on a quarterly basis.

PREVENTING MONEY LAUNDERING AND TERRORISM FINANCING

pbb Group has made a commitment to very high standards in the prevention of money laundering and the financing of terrorism. The Group has implemented comprehensive regulations and processes, and requires all employees to follow them. Examples of the Group's commitment include thorough Know Your Customer (KYC) processes, a continuous review of international lists regarding, inter alia, sanctions, suspicion of money laundering or terrorist financing, as well as risk analysis and ongoing reporting. The actions of pbb Group in this regard are essentially based on the German Money Laundering Act (Geldwäschegesetz – "GWG"), compliance with which is reviewed and controlled through inspections of sales-related units, Compliance and Internal Audit along the three lines of defence. The new Client Lifecycle Management Team was established in January 2020, to support sales-related units with the KYC process, including compliance with legal requirements and internal regulations. Measures to prevent money laundering and financing of terrorism are constantly updated, and reviewed by Internal Audit on an annual basis. They are also covered during the audit of the financial statements.

FRAUD PREVENTION, PREVENTION OF OTHER CRIMINAL ACTS, PARTICULARLY FRAUD, CORRUPTION AND BRIBERY

As described above, pbb Group takes the prevention of other criminal acts very seriously. As such, pbb has put various safeguards in place to protect itself against damage, in particular that incurred due to potential fraudulent and/or other criminal acts, such as corruption and bribery. The definition of 'other criminal acts' considers the regulatory purpose of section 25h KWG and can thus be interpreted very broadly. It includes any (even if only conditionally) intentional action characterised, for example, by deception, concealment, cover-up, or abuse of trust, with the potential to jeopardise or damage the assets or reputation of pbb Group, e.g. also by using pbb Group to damage a third party's assets.

The safeguards to prevent other criminal acts include binding regulations for all employees, in particular those defined in the Guidelines on Combating Other Criminal Acts, as well as in the Code of Conduct. One of their goals is to ensure proper and professional conduct amongst employees. Said rules comprise clear provisions to avoid conflicts of interest, provisions for accepting and granting benefits and gifts in general, and interactions with government representatives and public agencies. In particular, cash payments, gifts and other benefits or perquisites to officials that could in any way be interpreted as undue influence, bribery or corruption, are prohibited.

At the end of the day, specific indications are important, as they can help detect statutory violations. pbb Group's whistleblowing system, as mentioned above, allows for anonymous reporting in the event of a specific suspicion regarding fraudulent or other illegal activities. All reports are handled with utmost confidentiality. pbb Group takes the concerns of its whistleblowers with regard to their security and career seriously, and its confidentiality regulations ensure that whistleblowers' identity is not revealed without their explicit consent. Any attempt to discriminate against a whistleblower, or discourage an employee from whistleblowing, that comes to light results in disciplinary action that can even go as far as dismissal. One anonymous report was received in the year under review which was immediately processed and closed.

DATA PROTECTION AND INFORMATION SECURITY

Data protection and information security, as well as their protection objectives, are key management issues within pbb Group.

Upholding banking and business secrecy, protecting the rights of data subjects and ensuring reliable service provision are the primary objectives of the Data Protection and Information Security department. As a result, the department focuses on the following activities:

- > Acting as a point of contact for information security and data protection issues
- > Ensuring that the Bank has an information security framework in place that complies with relevant laws and regulatory requirements and takes industry best practice into account
- > Monitoring compliance with measures to protect personal data and other information from unauthorised access and processing
- > Monitoring measures to ensure the confidentiality, integrity, availability and reliability of information and IT systems in order to be able to meet the requirements of business operations
- > Regular employee training on information security and data protection issues

The Management Board receives a comprehensive report on data protection and information security every quarter. This report is also included in the reporting to the Supervisory Board and its Audit Committee. The Management Board also receives information on key topics (e.g. new regulatory requirements and their implementation or reviews of data protection or security incidents) on an ad hoc basis.

There were no major information security or data protection incidents during the reporting period.

Data protection

Handling confidential data with great care is a top priority within pbb Group. The regulations on data protection can be found in a variety of sources including the EU General Data Protection Regulation, in the German Federal Data Protection Act (Bundesdatenschutzgesetz – “BDSG”), in national/international statutory and supervisory law regulations, as well as in the contractually agreed non-disclosure clauses.

Several measures have been taken to ensure data protection within pbb Group, which are reviewed at regular intervals and adjusted if necessary. They include the following, in particular:

- > Appointing a data protection officer to act, among other things, as a port of call for internal and external enquiries and to monitor compliance with data protection regulations within the Group
- > Subjecting employees to data secrecy obligations and providing them with regular training on data protection issues
- > Checking the level of data protection in line with a risk-based audit plan
- > Safeguarding the rights of data subjects
- > Keeping a register of processing operations

The issue of data protection is also covered in every employment contract. Any breach of the data protection rules and regulations can have disciplinary consequences.

Contracts with external service providers are also used to ensure that data protection regulations are complied with and that state-of-the-art technical/organisational measures are taken to protect personal data when it is processed.

Information security

Today, information security is exposed to a much greater risk than it was in the past. As the information processed within a bank is very valuable, it needs to be adequately protected and this protection enhanced on an ongoing basis. One of the sources of risk comes from the dense networks of and within companies and organisations, and the mounting threat associated with all kinds of cyber risks in the broadest sense of the term.

pbb Group has an information security management system in place that is based on the international standard ISO/IEC 27001:2013 and the basic IT protection regulations (IT Grundschutz) set out by the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik – “BSI”) with the protection targets defined therein for the information generated and processed within the Bank.

These protection targets within ISO/IEC 27001:2013 are:

- > Availability: information can be accessed by authorised persons/entities, and information can be used whenever needed.
- > Confidentiality: information is only made available to authorised persons, entities, or processes.
- > Integrity: accuracy and completeness of information is protected against unauthorised or unintended changes.
- > Authenticity: authenticity is understood as the extent to which objects, e.g. data/information, are genuine and credible

Various processes, guidelines, procedures and techniques are used within pbb to ensure the information security objectives. pbb uses corresponding policies to establish the above-mentioned objectives, including all of the necessary activities, within the company with a view to the long term.

Due to the considerable importance of the topic of cyber security within the Bank, pbb has taken the following countermeasures, among others:

- > Regular measures to raise awareness and information security training sessions
- > Vulnerability management, including regular security patching
- > Specifications to make systems and infrastructure components more resilient based on international standards, including corresponding compliance scans to check implementation
- > Regular PEN tests
- > Extensive anti-malware protection, including phishing and SPAM protection
- > SIEM (security information and event management)
- > 24/7 SOC (Security Operating Centre)
- > Network security measures, e.g. firewalls, proxies, encryption

pbb Group uses its organisational structure, guidelines and technical implementation to ensure a level of information security that is commensurate with its business strategy.

COMPETITION AND ANTITRUST LEGISLATION

In its Code of Conduct and in internal instructions on the topic of competition and antitrust law, pbb Group has set high standards regarding compliance with respective requirements and rules, especially as regards discussions with competitors. Furthermore, our staff attend trainings on competition and antitrust legislation once a year.

As a further measure to raise awareness and ensure compliance with the requirements, Compliance has implemented a regular confirmation process, within which the heads of all business divisions are requested to confirm acknowledgement of – and adherence to – the competition and antitrust stipulations for their division on a regular basis.

RESPECT FOR HUMAN RIGHTS

The pbb Group's Human Rights Guidelines supplement the Code of Conduct and define the requirements that the Group expects both itself and its stakeholders to meet when it comes to respecting and safeguarding human rights.

In these guidelines, pbb Group accepts its unconditional responsibility as a global company to respect, adhere to and strengthen human rights, and to prevent human rights abuses during the course of its own business activities, but also along its entire supply and value chain as well as amongst its stakeholders provided that pbb Group learns about it.

Above and beyond legal requirements, such as those set by the German General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz – "AGG") and the German Act to Promote Transparency of Pay Structures (Entgelttransparenzgesetz – "EntgTranspG"), pbb Group has incorporated the stipulation to respect and honour human rights as a central theme in its Code of Conduct, the document which defines the vital ethical and legal framework governing conduct within pbb Group together with its dealings concerning clients, business partners, competitors and the general public. pbb Group expressly distances itself from any violation of human rights, whether committed by a member of staff or other stakeholder groups. Transparency, honesty, fairness, as well as dignity and respect are among the most central maxims. pbb Group respects all people, independent of age, disability, sex, sexual identity, ethnicity, social background, skills, sexual orientation, personal beliefs, or religion, and is committed to fostering diversity amongst its staff. A culturally diverse workforce is an important success factor, which is why the Group is devoted to preventing or removing discrimination against its employees.

To highlight the importance of equal treatment, pbb Group has signed the German Diversity Charter. To ensure equal working conditions and opportunities for all employees alike, pbb Group also engages in regular dialogue with its employee representatives on a variety of relevant topics, ranging from equal pay to striking a balance between work and family commitments, and the prevention of discrimination and bullying. pbb Group has made the necessary arrangements to safeguard everyone's right to work in a secure and healthy environment in line with the applicable occupational safety and health legislation (cf. "Working environment"). Over and above the whistleblowing system, pbb Group has set up a Complaints Office for pbb employees to report potential discrimination pursuant to the German General Act on Equal Treatment.

The duties of pbb Group employees regarding human rights also stretch to human rights abuses at the hands of other stakeholders: should a staff member become aware of any indications that a prospective client, supplier or other business partner may be involved in illegal activities or activities that could damage our reputation or violate human rights, they must inform the Member of the Management Board responsible for the relevant area, as well as Compliance. The relevant Member of the Management Board and Compliance will review every case individually. These questions are also pre-empted during the Know Your Customer (KYC) process that clients and business partners are subject to, as well as during country analyses used to identify target markets.

In 2021, pbb Group prepared another statement of compliance with the UK Modern Slavery Act, in which suppliers and service providers were identified and the processes that have been set up to ensure conformity with this Act, whose applicability is (currently) limited to the United Kingdom, were laid out.

For further information on the topic of human rights, please refer to the already mentioned, publicly available Guidelines on Human Rights of pbb Group; the chapters on individual sustainability topics also provide some information.

No human rights abuses were known at pbb Group during the 2021 financial year.

Employee Matters

PBB GROUP AS AN EMPLOYER

An increased need for specialisation and demographic change, as well as an environment marked by regulatory requirements, brings distinct challenges to pbb Group in its HR work. HR work is based on a far-sighted HR strategy which translates the Group's business and risk strategy as well as its business model into the HR world.

pbb Group's business model requires highly qualified employees with expert knowledge in a vast range of subject areas. The key objective of the HR strategy is therefore to attract, retain and develop – for the long run – employees with expert knowledge, a high degree of quality awareness and a strong client focus, leadership skills in line management as well as management abilities at project level, the willingness to be deployed flexibly, and a pronounced entrepreneurial mindset.

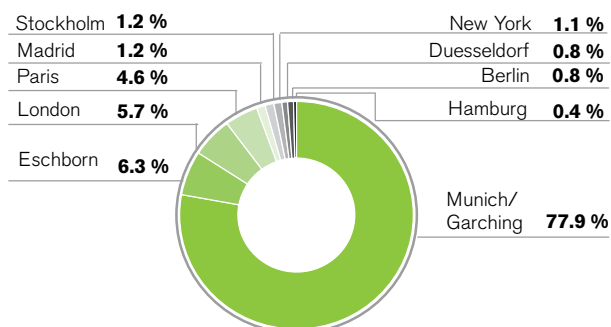
Implementation of the HR strategy is based on differentiated, strategic personnel planning, where medium- and long-term changes in the workforce and staffing needs are systematically assessed and managed from a forward-looking point of view, as part of pbb Group's multi-year planning. We take great care in structuring our organisation and workflows efficiently, while focusing on our clients at the same time. Our efficient and lean processes are continuously optimised, also for the purpose of cost-effectiveness.

The successful recruitment of specialists and talents and ensuring that these employees stay loyal to the Bank in the long term are key elements of the HR strategy. Flexible and modern working conditions, a vast range of qualification opportunities and development prospects create opportunities for discovering individual solutions in a dynamic working environment, together with pbb's clients, thinking and acting in a client-oriented entrepreneurial way. This makes a key contribution to pbb's appeal as an employer and ensures that pbb Group will remain competitive in the future, since it naturally competes with other banks, and continuously vies for the best talent in the market.

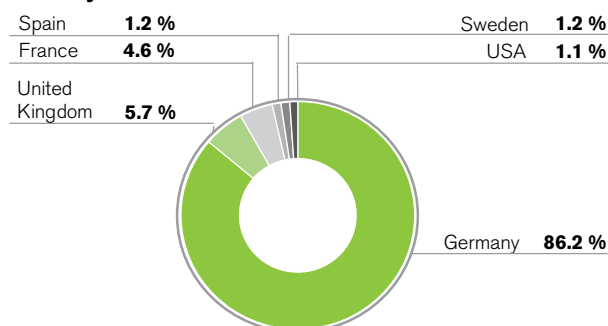
In 2021, prevention management for employee health and safety was a focal point of HR work and a top priority, especially in light of the COVID-19 pandemic. The focus for 2022 is on the advancement of young people and women, talent management and diversity.

**Regional distribution of employees (pbb Group)
As of 31 December 2021**

Location



Country



As in the previous year, pbb Group's workforce remained stable during 2021. pbb Group employed a total of 828 people at the end of 2021¹ (2020: 823 people). The adjusted² fluctuation was 5.11% (2020: 6.35%). The ratio of voluntary redundancies was 4.02% (2020: 4.61%).

¹ Headcount pursuant to the German Commercial Code (excluding Members of the Management Board, interns and student employees). pbb AG employs 806 people, CAPVERIANT GmbH 22 people. Figures provided below relating to employees refer to the Group.

² Adjusted fluctuation comprises any fluctuation initiated by the employer or employee, as well as discharges due to fixed-term employment contracts running out. Adjusted fluctuation was calculated based on an average headcount of employees of 823 (pursuant to the German Commercial Code).

THE COVID-19 PANDEMIC – IMPLICATIONS AND MEASURES

2021 was another challenging year for pbb Group in view of the COVID-19 pandemic. Protecting the health of our employees and clients, as well as pbb's contribution to protecting public health, were top priorities. As a result, pbb Group's HR work once again centred its attention on prevention measures to keep our employees safe and healthy, whilst safeguarding the Bank's operational stability and capacity to act. The working environment was aligned with the latest guidelines issued by health authorities and experts, as well as with official rules and recommendations, whilst being designed to promote productivity and team spirit within the Group. The measures, some of which were specifically implemented only in certain regions, were coordinated and developed by a crisis management team headed by Marcus Schulte; the Management Board defined material key points and priorities. The branches and divisions implemented the measures on their own account. Employees are provided with information on the intranet, but also at regular virtual town hall meetings or in divisional calls.

In addition to ongoing technical and organisational measures, such as clearly defined rules on physical distancing and the use of masks covering mouth and nose in enclosed spaces, equipping offices and break rooms with partitions and other technical measures, pbb implemented, or further developed, a range of measures, including a ventilation concept and regular air quality measurements added to the already existing technical ventilation system, regular cleaning of surfaces, and measures to raise awareness amongst staff members to reduce social contacts, as well as to provide them with information on preventive health and hygiene measures. As of November 2021, pbb Group has systematically implemented the "3G" rule, requiring individuals to have recovered from a COVID-19 infection, or be vaccinated or tested in order to access pbb premises and work within pbb Group. In addition, employees and their close relatives were offered the opportunity to be vaccinated against COVID-19 on a total of eight dates starting in

June 2021. Most recently, employees were also offered booster vaccinations starting in November 2021.

These measures were supplemented by renewed measures to grant compensation for necessary IT equipment for remote working or for other special expenses triggered by the pandemic. Training measures for employees and managers on specific topics relating to cooperation and leadership were expanded further and institutionalised.

Particularly in the spring and autumn/winter of 2021, the Bank allowed employees to work from home as much as possible and justifiable, while also asking them to work on-site to the extent required. Thanks to the IT infrastructure investments made in recent years, we were able to continue our operations without disruptions in 2021. Operational stability and productivity were ensured at all times.

NEW WORK – NEW WORKING STANDARDS AFTER THE COVID-19-PANDEMIC

New Work is a new, state-of-the-art framework for how we plan to work together at pbb once the COVID-19 pandemic is over. This has involved a fundamental revamp of the overall regulations for making work more flexible. The aim of New Work is to make use of the positive, constructive experiences of remote working gleaned during the pandemic. At the same time, more in-person attendance in the office – and, as a result, more face-to-face interaction and creative work in groups – is an essential permanent mode of working for pbb to foster team cohesion and business success. This means that employees are expected to work from the office as a general rule. Employees are entitled to make use of options for remote working, however. This entitlement can be used on two fixed days a week for employees who do not take part in the electronic time recording system, and on one fixed day a week for employees who do take part in the electronic time recording system. Every employee has the right to switch from electronic time recording. These changes have also involved creating greater flexibility regarding the use of office space by including desk sharing as a general option.

REMUNERATION AND EMPLOYEE BENEFITS

The remuneration system and the remuneration strategy of pbb Group are integral components of the business and risk strategy of pbb Group. With its remuneration strategy, pbb Group aims to guarantee a fair, performance-oriented remuneration in line with the market – one that is geared to achieving the targets enshrined in the business and risk strategy. In particular, the variable remuneration system includes appropriate incentives for individual performance, but also promotes and improves cooperation between business divisions, departments and teams. With the variable remuneration components, employees have the chance to participate directly in the success of pbb Group.

Another key element in the remuneration strategy of pbb Group and its remuneration system is the fulfilment of regulatory requirements that deal with the remuneration systems of banks. On the one hand, this means that the implementation of the statutory principle of appropriateness of individual remuneration components regarding total amounts and structures is accounted for, with the ultimate objective being the avoidance of disproportionately high risks. Total remuneration amounts, and individual remuneration components of employees and Members of the Management Board, are subject to regular revision in order to establish an appropriate relationship regarding function and individual performance, as well as pbb Group's overall performance. In 2021, the system, structures and amounts of remuneration were once again reviewed for appropriateness. On the other hand, the remuneration system of pbb Group implements all other regulatory requirements regarding remuneration, in particular those regarding the variable remuneration component. Of particular importance for pbb Group are the regulatory requirements regarding remuneration systems pursuant to the CRD, the German Banking Act, the German Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "IVV"; especially requirements on the variable remuneration of risk takers and senior

managers), as well as – for the Management Board – those resulting from the German Stock Corporation Act (Aktiengesetz – “AktG”) and the German Corporate Governance Code (Deutscher Corporate Governance Kodex – “DCGK”).

The remuneration system for managers and employees consists of fixed remuneration and variable remuneration, as well as fringe benefits that are standard practice in the industry. The amount of variable remuneration is determined on three levels: the institution's performance, the performance of the relevant department and individual performance. Maximum target achievement is set at 150%. Regarding the disbursement structure, pbb distinguishes between employees who have a material influence on pbb Group's overall risk profile (so-called risk takers), and other employees (so-called non-risk takers). The variable remuneration for non-risk takers is usually granted in cash at the end of the first half of the year subsequent to the financial year for which the variable remuneration is granted.

The disbursement structure for the variable remuneration for risk-takers provides for the variable remuneration to be divided into a disbursement portion and a deferral portion once the performance has been measured. The disbursement portion for second-level senior staff amounts to 40% of the variable remuneration allocated to them, with the deferral portion amounting to 60%. The disbursement portion for employees amounts to 60% of the variable remuneration allocated to them, with the deferral portion amounting to 40%. 50% of the disbursement amount is paid out in cash when the conditions for disbursement have been met. The remaining 50% is disbursed after one year, with the amount being linked, in line with the applicable sustainability component, to share price performance and, as a result, to pbb's financial development, which may result in the amount being adjusted. The period for the deferral portion due to second-level senior staff is five years, and three years for employees. A malus test is performed during this deferral period, which can lead to the deferral portion due for payment in each case being reduced. Following this malus test, 50% of the relevant deferral portion is subject to an additional one-year retention; it is linked during this period to pbb's sustainable development, in line with the applicable sustainability component. The regulations only apply to risk takers whose variable remuneration exceeds €50,000.

Fair and gender-neutral remuneration

Equal pay for women and men is a top priority for pbb Group.

The remuneration of members of staff whose conditions of employment are governed by collective wage agreements, so-called tariff employees, is ruled by the collective agreement for private and public-sector banks.

pbb is a member of the employers' association for the private banking sector (AGV Banken). Tariff employees are assigned to a grade along the scale agreed in collective agreement, based on the work they do. With this approach, an industry-standard minimum remuneration independent from questions of race, ethnicity, gender, religion or personal beliefs, disability, age or sexual orientation is warranted, and we ensure that a person's remuneration reflects their qualifications, duties, function as well as their professional experience.

To provide for adequacy and fairness in the remuneration of non-tariff employees, remuneration is regularly – usually biennially – reviewed as to whether it is in line with prevailing market terms, using external benchmarks and a functional classification system. The benchmarking is based on a standard classification scheme for job or function levelling (the Towers Watson Career Map), with three so-called career paths (“M” = Management; “P” = Professional, and “T/U” = Services/Administration) and different career levels within these career paths. This classification lays the groundwork for the verification of remuneration in terms of market levels (the so-called market matching). Further dynamic to the salaries of non-tariff members of staff is determined by the individual employee's qualifications, duties, function, performance as well as

professional experience, disregarding questions of race, ethnicity, gender, religion or personal beliefs, disability, age and sexual orientation.

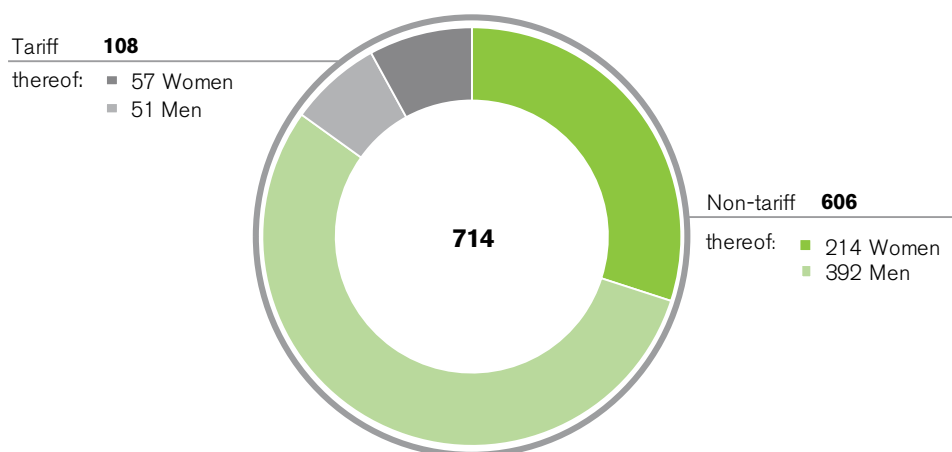
Hence, both the setting and the further development of salaries paid by pbb are based on a fair, transparent, performance-based and recognised system which is in line with prevailing market conditions – without regard to race, ethnic origin, gender, religion or personal beliefs, disability, age, or sexual orientation.

Variable remuneration, which applies throughout pbb and all other Group entities in as uniform and viable a manner as possible, is determined using a formalised and transparent process, harmonised across the Group. Allocation of variable remuneration is based on the achievement of qualitative and quantitative targets at both divisional and individual levels – to the extent possible, reference shall be made to pbb Group's business and risk strategy; target achievement shall be determined for every division and every employee at pbb Group. The qualitative and quantitative divisional targets are established on an annual basis and derived from the corporate targets and the business plans made for the respective financial year. In a first step, the Management Board defines strategic priorities for the divisional targets are defined to support the target setting (Corporate Strategic Priorities). As a matter of principle, the Management Board defines Corporate Strategic Priorities in the area of ESG (Environment, Social and Governance). This serves, in particular, to foster behaviors in relation to pbb's climate and environmental environmental risk approach of pbb. A reference value representing 100% target achievement is defined in advance for each target, to facilitate measuring the level of target achievement and hence, determining variable remuneration.

The Management Board adopts the divisional targets, which are communicated to all employees of the respective divisions at the beginning of the year, based on the Corporate Strategic Priorities. At the individual level, every employee is provided with an annual target agreement comprising quantitative and qualitative targets for the current financial year. The measurement of every target is based on indicators, allowing transparent performance assessments at the end of every financial year. pbb Group conducts annual employee reviews within the scope of an annual process; holding these discussions is part of managers' responsibility. The structured employee review takes place between each employee and his or her manager, for the purpose of assessing the employee's performance during the year under review, and for agreeing upon targets for the following financial year. Accordingly, the employee review is a key instrument for establishing a common understanding of performance standards, as well as on concrete targets and expected results. For this purpose, the discussion focuses on priority issues for the respective financial year, which need to be aligned with (or are derived from) the business and risk strategy. Employee review and performance appraisal are key management tools which ascertain that staff activities and priorities are aligned with target achievement and the Company's performance, and ensure fair remuneration. Human Resources supports and monitors the regular conduct of employee reviews. A guideline for managers and employees containing important information on target agreements and employee review discussions is available on pbb's intranet.

Company pensions are an important pillar of the additional benefits pbb Group has to offer. For its employees in Germany, pbb Group has established defined-contribution and defined-benefit plans. In the defined-contribution plans, pbb makes payments for commitments by industry-wide organisations such as BVV, the German pension provider for the financial industry; BVV has been an important company pension option for employees joining since 1 April 2004. In all of the Group's non-German entities to which no legal or tariff provisions apply, a company pension scheme – in a locally common form – is in place.

**Proportion of tariff employees/non-tariff employees (pbb Group)
As of 31 December 2021**



Employee benefits

pbb Group provides members of its staff with a comprehensive employee benefits package, including – depending on the employee’s location – capital-building payment schemes, sickness benefit and grants to the statutory sick pay, anniversary pay, lunch allowance, special leave in case of special events and a group accident insurance policy.

In the Garching and Eschborn locations, voluntary preventive healthcare measures such as free influenza vaccinations, health checks and computer glasses are available (cf. “Fair working conditions”). pbb also has a workplace integration management system in place, which all employees affected may make use of.

During 2021, pbb Group employees in Germany were once again able to lease high-quality communication devices of the newest generation such as PCs, notebooks, tablets or smartphones, through pbb Group at attractive terms and for their private use. The monthly lease instalments are directly offset against gross salary, allowing pbb employees to benefit from tax benefits for private use of communication technology available in Germany, in line with their own marginal tax rate.

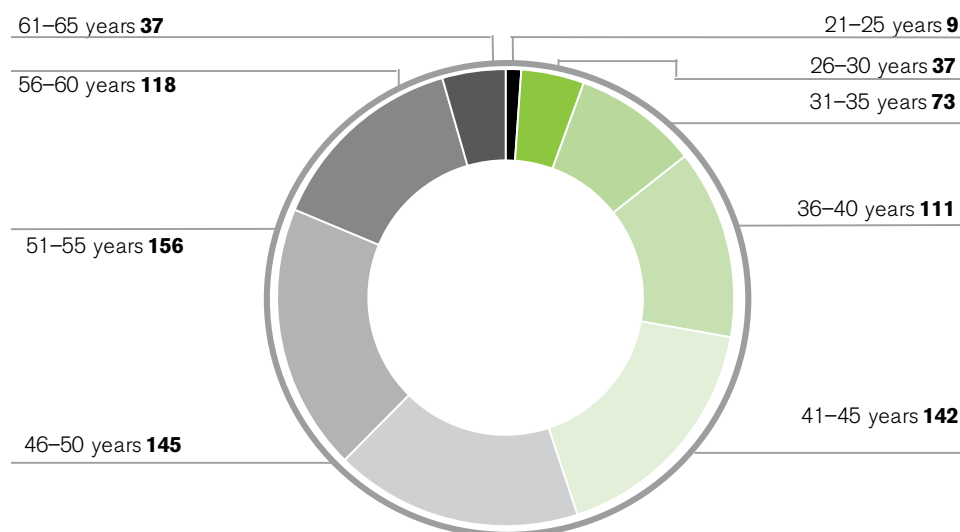
WORKING ENVIRONMENT

pbb Group employs 828 women and men from 35 different countries with different skills and different backgrounds. This workforce form the basis for sustainable corporate success. Promoting diversity and the personal growth of our employees, with fair working conditions, is at the heart of the Group’s HR work. pbb Group respects human dignity, human rights and an employee's right to privacy. All staff members are treated with fairness, dignity and respect. pbb Group has zero tolerance with regard to unfair or discriminatory behaviour towards its staff. It is committed to the principles of equal treatment in the selection and further development of staff, without discriminating against any employee (or potential employee) due to race, ethnicity, gender, religion or personal beliefs, disability, age or sexual orientation.

Employees are assessed on their performance alone. Honouring the legal and contractual rights of employees is an essential part of the compliance work instruction which employees must adhere to as per Works Council agreement and/or their employment contract, as well as to pbb's Code of Conduct. This forms the foundation for our managers' and employees' work. The work and conduct of managers and employees alike – and therefore that of our Bank – is based on mutual respect, openness, honesty and a joint understanding of trusting collaboration. pbb Group focuses in particular on the issue of gender balance. This focus is supported by increased awareness for the topic across all levels and the establishment of a corresponding management and corporate culture, as well as the internal obligation to specifically address the under-represented gender for the given situation when filling vacant positions, while taking in account ability and qualifications. Further information on this topic can be found in the pbb Group's Corporate Governance Report.

pbb has an internal office that employees may turn to when they feel that discrimination pursuant to the German General Act on Equal Treatment has occurred. On the intranet, pbb informs its workforce concerning protective measures against discrimination with a dedicated pamphlet.

Age structure of employees (pbb Group) As of December 2021



Fair working conditions

Since 2010, pbb has been a signatory to the Charta der Vielfalt (diversity charter), thus demonstrating its fundamental commitment to the economic benefits of diversity, tolerance and fairness among a company's employees as well as among its clients and business partners. The Charta der Vielfalt binds its signatories to creating a working environment that is free of prejudice and exclusion, and to establishing an open corporate culture based upon mutual respect and the involvement of stakeholders. This vision is something we actively live. pbb Group takes heed of an even-keeled structure of our workforce in the demographic sense, and employs people from a vast variety of education and sector backgrounds.

Every employee must be able to address workplace problems without fearing repercussions. pbb Group fosters an open corporate culture that provides for the inclusion of employees in the decision-making process, while at the same time maintaining discretion. It further ensures that procedures exist within the Group in order to resolve any workplace problems confidentially and as quickly as possible, including a Complaints Office for complaints under the German General Act on Equal Treatment, a dedicated contact at Human Resources and a whistleblowing system.

Efficient and committed employees are central to the success of every company, which is why pbb Group invests in the health of its employees. The Health and Safety Committee (Arbeitsschutzausschuss – “ASA”) that was implemented in Germany and which includes a company doctor, the occupational safety specialist, as well as representatives of the Works Council and the safety officers (Human Resources and Corporate Services representatives), meets on a regular basis to consult on the status of occupational safety and health protection at pbb Group’s German offices, and to decide upon measures to improve occupational safety and health, and the prevention of accidents. Company doctors hold consultation hours for employees at the Garching and Eschborn locations. Furthermore, pbb Group voluntarily offers its employees various health measures, for which it assumes the costs. In 2021, we conducted 22 preventive checkups on working with display screen equipment, 23 extensive consultations on individual topics, 21 consultations on hygiene measures and measures to reduce SARS-CoV-2 infection risk, and 263 vaccination advice sessions/vaccinations. No further measures aimed at workplace health promotion in the form of free checkups were performed in 2021 due to COVID-19. Our offer to visit a company doctor was taken up by a total of 286 employees.

pbb Group’s managers received training on occupational safety issues from the occupational safety specialist in 2021, in compliance with the German Act on the Implementation of Measures of Occupational Safety and Health (Arbeitsschutzgesetz – “ArbSchG”). The Bank also offers first aid courses and further training for first-aiders every year, which also deal with the handling of automated external defibrillators. Similarly, fire prevention training is given annually, with refresher courses held every two years.

During 2021, demand among employees in Germany for the Bank’s subsidies for preventive healthcare was strong once again. However, pbb Group’s sponsorship of health-promoting measures is not limited to Germany. At both its German and international locations, the Group supports membership in sports clubs or gyms, eyesight tests, training for first-aiders and fire prevention officers, health checkups and workplace evaluations.

Work-life balance

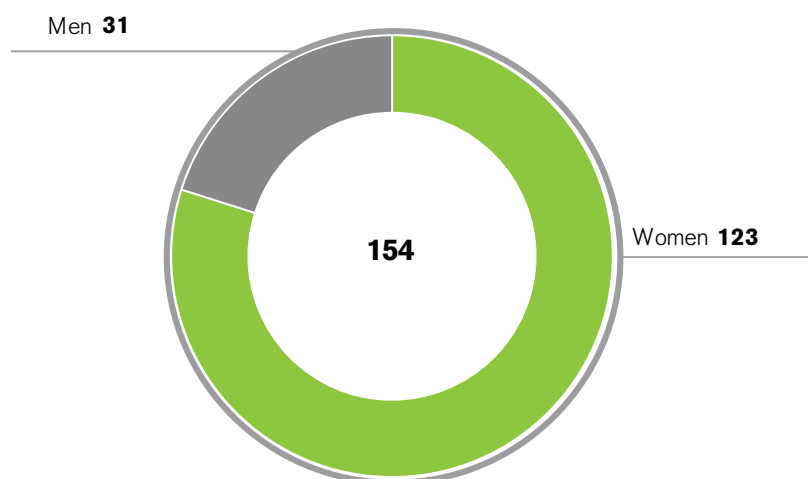
Helping employees reconcile their responsibilities at home and at work by providing support for childminding has increased in importance – both in the goal of promoting women and in pbb Group’s endeavour to recruit new employees and become a more attractive employer.

By providing the corresponding work organisational conditions, such as flexible working models or the possibility of working at home, pbb Group offers attractive arrangements that make it easier to balance work and family for all employees. Parental leave is granted in line with statutory provisions; when employees return from parental leave, their working hours are organised with a high degree of flexibility. Furthermore, pbb is subject to the collective wage agreement for the German private banking sector and public-sector banks; in certain conditions, this provides for extended parental leave. In addition, in case of childcare problems, pbb Group offers flexible opportunities to work from home, or permits bringing children to the office. Employees who care for a family member can rely not only on the legal provisions, but may also take unpaid leave or temporarily reduce their working hours. The introduction of New Work also helps employees to strike a balance between work and family commitments.

pbb's "family service" for all employees based in Germany also provides a range of agency and selective advisory services. This offering has been taken up by employees in particular for childminding, homecare and care for the elderly. Virtual childcare was also offered in 2021 due to the increased need for employees to work from home. Similar to the situation in France and the UK, childminding costs for children that have not yet reached school age is subsidised in Germany as well. The maximum subsidy in Germany amounts to €100 per month and child. In 2021, a total of 129 employees made use of this childcare allowance.

18.6% of employees work part time (part-time share for female employees: 38.8%, for male employees: 6.1%), testimony to the flexible working opportunities and the support given to work-life balance.

Part-time distribution (pbb Group) As of December 2021



Involvement and co-determination

At pbb, relevant industry-specific collective agreements apply to employees in Germany, France and Spain.

In Germany, there are also two local Works Councils (in Garching and Eschborn) as well as a representation body for severely disabled employees. In addition to these bodies, there is a Central Works Council, which has formed an economic committee. No Group works council exists. An employee representation body was active in our French offices in 2021, but no other such bodies exist at the remaining international offices. The working relationship between pbb Group and employee representation bodies is based on trust and regular exchanges, and pbb Group respects their rights.

Employees are kept in the loop through regular information provided by both their representatives and pbb Group via the intranet or e-mail, as well as in personal meetings. All members of staff have the opportunity and the right to organise in trade unions, as well as the right to assembly.

In Germany, regular works meetings ensure that employees are comprehensively informed, and the time employees spend at these meetings counts as working time.

Responsible approach to restructuring

Overall regulations are in place at pbb Group for any organisational changes, providing for mutually acceptable and socially responsible solutions in the event that we have to part ways with employees. These include, in particular, regulations on severance payments, as well as targeted support for affected employees to position them on the labour market through outplacement and further training measures.

Training and continuing professional development

The business model pbb Group pursues, and the ever more challenging and complex environment that it is active in, calls for highly qualified employees with expert knowledge. This makes training and continuing professional development an important ingredient of the Group's HR strategy, and a core element in achieving the Bank's goals.

In terms of personnel development, pbb Group follows a holistic approach that looks at each individual member of staff, provides them with guidance and, where necessary, support in their professional and personal qualifications and development. This requires that the qualification measures of the individual employee be identified and planned, to meet the needs the employee has in terms of knowledge and competence. Together with the principle of "leading, challenging, encouraging" and the employee review, individual qualification is a cornerstone of pbb Group's personnel development. The annual employee review forms the basis for establishing qualification needs. If qualification measures are earmarked during the review, manager and employee mainly – but not exclusively – select and plan the contents of these measures in the context of the target agreement. Measures may be on-the-job, near-the-job, as well as off-the-job, and may be offered in-house or externally. Where qualification needs arise in the course of the year, further seminars or trainings above and beyond what was agreed during the review may be requested.

pbb Group offers a variety of in-house training and qualification measures, particularly in the realm of technical qualification, management and social skills to make line managers better leaders and to foster understanding for working in teams.

The seminar offering comprises topics specific to pbb, but also methodological and social skills. In the course of the latter, trainings aim at team-building measures, a better understanding of intercultural diversity as well as at general presentation, moderation, negotiation, time management or language skills. Our internal training catalogue is completed by dedicated measures for women, which also help improve the reconciliation of family and working life at pbb Group.

For managers, pbb Group offers a series of seminars on leadership. In our well-established Leadership Academy, we lay the groundwork that is later built upon in our Leadership Excellence trainings. These trainings encourage experienced managers to reflect on and improve their management and social skills in an ever more challenging and complex working environment. The Leadership Journey also places particular focus on the leadership challenges associated with a hybrid working world. Above and beyond these offerings, the Bank also enables executives with significant management responsibility to participate in individual coaching sessions.

For young talents that have just completed their university studies, a trainee programme that offers both technical and interdisciplinary qualification makes for a successful start with pbb Group. A mentoring programme rounds off the range of development and support measures.

A large number of training measures were held as virtual sessions again in 2021, helping to ensure ongoing training and continuous professional development for employees. New further training measures were designed and implemented to meet the needs arising from hybrid work structures. Among other things, further training opportunities were created for managers in order to further promote and strengthen the leadership skills required in the remote working environment. Short workshops and presentations designed to provide food for thought allow all employees to address the challenges associated with remote working and hybrid collaboration and to acquire the necessary skills. An increasing number of coaching sessions were also offered to specific target groups as required.

The continued systematic development of an HR development structure that is aligned with the individual requirements of divisions and employees will continue to challenge pbb Group, while also serving as a gold standard for successful HR work. Against this background, pbb Group strives to continuously evolve its qualification programme – and to continue to do so, going forward. With new initiatives adding to the broad range of existing measures, we will therefore continue to provide important impetus in 2022 and beyond, to systematically support our staff in their professional and personal growth with a modern approach. New measures aimed at agile project management as well as further training on the topic of remote working and moves to extend the existing trainee programme are on the agenda for 2022.

In addition to the internal on-the-job and near-the-job measures – organised centrally as well as decentralised – pbb Group employees can resort to a wide range of external training measures. As a rule, the employee and his or her manager decide on the – in this case mostly professional – training measures within the scope of the employee review. The selected measures depend on the employee's needs. pbb Group paves the way for suitable employees to complete, inter alia, the international Real Estate Manager training (EBS), tailored to the needs of pbb Group.

Expenses for internal and external staff qualification measures totalled €0.8 million (2020: €0.9 million) during 2021. This was equivalent to 3.9 training days on average for each employee (based on an average headcount pursuant to the HGB of 823), or 7.0 days on average for the 463 staff members who took part in the qualification measures.

Knowledge management

In order to make transition into their job at pbb Group easier for new employees, the Bank is directing a lot of attention to onboarding efforts. Introduction plans and sponsorships – in which an employee with relevant experience is at the disposal of new employees for any questions they might have – are systematically included and individually created by the business divisions for new employees. pbb Group organises a “Welcome Day” several times a year, providing information on the organisation, the business model and pbb’s primary process, as well as on interesting facts from other divisions. The event aims to improve the integration of new employees and to help them become familiar with the business and key (as well as cross-divisional) processes at pbb as fast as possible. Furthermore, new employees receive a welcome brochure with information on pbb’s locations; it is also available on the intranet. A series of internal qualification courses complements and deepens employees’ knowledge, with pbb’s business divisions providing insights into their areas of responsibility and key workflows.

Within the scope of an approximately 18-month trainee programme called “Programme for Young Professionals”, young professionals are employed in various areas, thus receiving comprehensive training. There are plans to further expand the trainee programme to feature a central trainee pool in 2022.

Securing new talent and employer attractiveness

pbb Group is facing increasing competition for experts with other employers. To meet the Bank's need for experts in the different divisions, pbb Group has implemented various initiatives to attract young talent and strengthen their capabilities. In this context, pbb Group continues to place emphasis upon intensive cooperation with key universities. In the event that pbb Group has to cover short-term needs, it uses external resources as well as various recruitment strategies for hiring new employees. Active searches via networks, especially social media, are our main focus. Passive searches are mainly performed via job portals, but also via social media. In addition, we engage agencies if required. Our attractive working conditions are a key success factor in attracting experts.

We stepped up our social media recruiting even further in 2021. Another centrepiece of our recruitment strategy in 2021 was once again university marketing. With in-person recruitment fairs being cancelled due to the pandemic, pbb attended five virtual events, but plans to attend the events in person again in 2022. In addition, we have case studies scheduled, in order to more intensively familiarise interested students at partner universities with pbb Group as a potential employer. During the year under review, pbb employees delivered guest lectures on different subjects at universities.

Furthermore, pbb Group provides student employees with the opportunity for extra-curricular activities in many areas, and – should said students possess the relevant skills – also in combination with a bachelor's or master's thesis with practical orientation. In 2018, pbb joined the Fair Company Initiative, the largest employer initiative for fair internships, and obtained the Fair Company label.

The project launched back in 2020 to develop an employer brand showcasing the (cultural) characteristics that define pbb Group as an employer was continued in 2021. This involved revamping pbb's career website and successfully implementing a new applicant management tool.

The fact that 98.5% of the positions in the Group are permanent, and a very high share of vacancies are filled internally, underlines pbb Group's position as an attractive employer and boosts staff loyalty. The low adjusted fluctuation rate¹ of 5.11% in 2021 demonstrates this.

¹ Adjusted fluctuation was calculated based on an average headcount of employees of 823 (pursuant to the HGB).

Environment

pbb Group aims to make an active contribution to achieving the climate goals of the Paris Agreement and thus strives to consistently and permanently reduce its ecological footprint and avoid environmental impacts – by aligning its lending business with sustainability criteria, funding itself via green financial products, and by handling natural resources responsibly. The first two aspects have already been addressed within the scope of sustainable financing solutions. As regards the third aspect, pbb Group's resources consumption is deemed non-material. Nevertheless, we shall subsequently discuss it.

In the Code of Conduct, pbb Group has committed itself to conducting its business in a sustainable and environmentally friendly way, and to identifying environmental risks that may arise in its business activities. Material reference points for this are especially the buildings used by pbb Group, the organisation of workflows, the use of data centres and the mobility of the Group's employees. The Member of the Management Board responsible for Information Technology is briefed about the development of different topics, such as energy and paper consumption, but also vehicle fleet and travel volume, on a quarterly basis.

RESOURCE MANAGEMENT

Business Campus Garching, where pbb's headquarters have been rented, was designed to ensure the responsible use of scarce resources and built in accordance with cutting-edge energy-efficiency standards.

An energy centre was established early on in the development of the Business Campus, as was a building management system spanning the campus, to allow for the connection of renewable energy sources and thus optimise energy consumption.

Rain water collected via roads and building roofs on the campus is collected in tanks, cleaned by way of sedimentation, and channelled into the central lake, thus making added fresh water unnecessary here. A seepage area serves to catch the overflow which then seeps into the groundwater; the entire outdoor area is irrigated with the campus' groundwater well. Visitor parking is not sealed. During the winter months, a geothermal hot water system operated by municipal utility EWG Garching keeps the Business Campus warm; in the summer, an absorption chiller cools the hot water down to keep the office spaces cool.

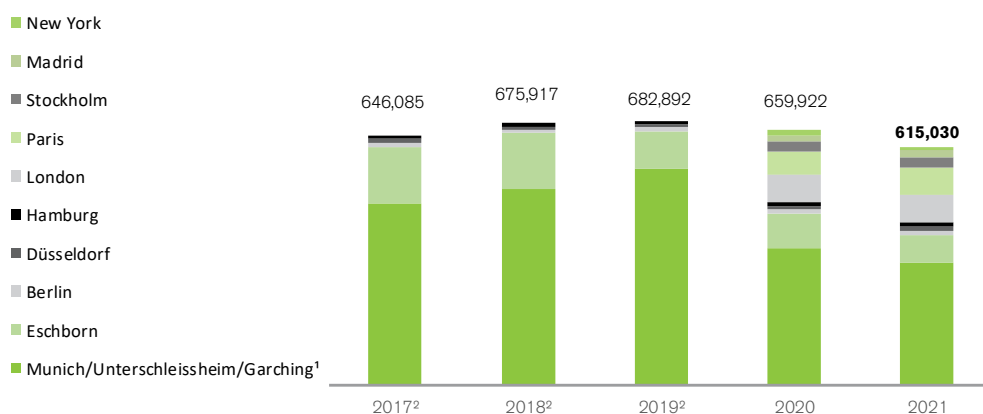
The Business Campus operates four photovoltaic systems, with a large proportion of the electricity generated being fed into the Business Campus power grid. 100% of the remaining electricity consumed at the Business Campus is generated in hydro-electric and wind power plants.

Since as early as 2011, 100% of power demand at pbb's headquarters has been met using renewable energy sources. As all other German locations have also been using power from renewable energy sources since 2015, power supply in our domestic market is carbon-neutral. pbb's international locations also obtain most of their electricity from renewable energy sources with the exception of the offices in Madrid, which is not supplied with green electricity, and Stockholm, which is only partially supplied with green electricity.

In addition to the ordinary 2021 Annual General Meeting, the 2021 Extraordinary General Meeting, the annual press conference, the analysts' conference and other internal events were also held as climate-neutral events. The plan is to continue this in 2022.

Power consumption

in kWh



¹⁾ Unterschleissheim (January 2019 – August 2019), Garching (July 2019 – December 2019).

²⁾ German locations only.

Energy-efficient office equipment, as well as the strict, needs-oriented management of electronic devices helps pbb to save electricity in the long term. All locations are equipped with energy-saving devices: the printers used have Blue Angel certifications, while laptops are certified to ENERGY STAR 8.0 standards and monitors have an energy efficiency rating of A+.

Another key factor is the operation of pbb's data centres. In addition to data protection and the reliability of the Bank's data centres, power usage effectiveness (PUE) is another key value, which expresses a data centre's energy efficiency. As a result, the PUE of 1.6 contractually agreed with the Frankfurt-based data centre was either undercut or met in both 2020 and 2021.

Working processes are generally designed to be as paper-saving as possible. Hence, multiple electronic devices are used in order to replace paper-based processes; for example regarding electronic employee services (recording of working time, payrolls, income tax and social insurance receipts, travel expense accounting, etc.), an electronic invoice and contract management, digital loan files and datarooms. pbb Group expects a further reduction following the introduction of the digital client portal in 2021, an electronic interface that enables the exchange of information and documents between pbb Group and its clients.

The paper we use is certified as eco-friendly. Furthermore pbb Group has refrained from printing annual reports, starting with the Annual Report 2019; prior to that, annual reports had been printed climate-neutrally since 2015. We further support recycling by re-using the cartons received as transport packaging.

MOBILITY

pbb Group's Travel Policy serves as a uniform Group-wide standard for all employees' business travel. It aims to simplify effective management and control of travel expenses within pbb Group, and provide an active contribution to environmental protection. Before commencing travel, employees are asked to consider whether the trip is generally necessary or can be replaced by video conferences.

The employees, as well as their direct superiors, are responsible for the fulfilment of this Travel Policy, which they will confirm through their electronic signature when recording and approving travel expense reports in an online tool. Deviations from the Travel Policy are generally to be avoided. Exemptions from this regulation can only be made with the explicit consent of the superior, for the sake of time and cost efficiency.

Due to the COVID-19 pandemic, flight and travel activity was once again down significantly in 2021, with greenhouse gas emissions resulting from flight and train travel, as well as from hotel stays, amounting to 63.3 tonnes of carbon dioxide within the entire Group (2020: 153 tonnes). By supporting a climate project, we achieved travel-related climate neutrality.

Company cars have to meet well-defined carbon emission standards in accordance with the Company Car Policy so as to limit their impact on the environment. pbb Group reviewed the existing malus system in 2021 and realigned the previous benchmarks to bring them into line with the WLTP (Worldwide Harmonised Light Vehicles Test Procedure). The New European Driving Cycle (NEDC) applies to vehicles leased before February 2020, the Worldwide Harmonised Light Vehicles Test Procedure (WLTP) to vehicles leased thereafter. Compared with the previous year, the number of company cars fell slightly, from 93 vehicles in 2020 to 92 in 2021. Based on the NEDC, the average carbon emission amounted to 122g/km (4 vehicles, 2021: 131g/km and 10 vehicles), whilst the WLTP average was 145.6g/km (88 vehicles; 2021: 148g/km and 83 vehicles). Thus, both figures were below the previous year's level. Overall, company cars incurred 383 tonnes of carbon dioxide (2021: 387 tonnes). However, the amount of emissions refers to contractually agreed upon mileage, not to the actual mileage. These emissions have also been made climate-neutral by purchasing an emission certificate.

pbb's headquarters – as well as the other locations – are well connected to the local public transportation network. A high-frequency and reliable metro connection makes the use of public transport attractive for our employees in Garching.

Individual charging options help promote the use of e-mobility. In addition, the new location provides car-sharing and carpooling offers.

In addition to a vehicle charging structure made available by the landlord, the site also features an e-bike charging station in our bike storage facility.

ECOLOGICAL FOOTPRINT

To reach the 2-degrees target determined in the Paris Agreement, pbb Group aims to consistently and permanently reduce its ecological footprint. As a result, it is working on expanding the collection of relevant emissions data on a step-by-step basis. As already reported in the section entitled "sustainable financing solutions", one of the primary goals is to make the sustainability of the real estate portfolio and the associated carbon emissions measurable. Although the main target is to avoid and reduce emissions, some divisions incur unavoidable emissions, which have been partially offset by purchasing emission certificates.

pbB Group makes a distinction between the following three categories when reporting on its ecological footprint: Scope 1 for direct carbon emissions, Scope 2 for indirect carbon emissions and Scope 3 for carbon emissions from upstream and downstream stages of the value chain.

The ecological footprint is composed as follows:

Scope		2021	2020	
		in t CO₂	in t CO₂	
Scope 1	Company cars ¹⁾	383	387	Climate-neutral via emission certificates
Scope 2	Indirect emissions from purchased electricity D	0	0	Renewable energy sources
	Indirect emissions from purchased electricity others	7	7	Climate-neutral via emission certificates
Scope 3	Office consumer goods ²⁾	6	8	Climate-neutral via emission certificates
	Business travel	63	153	Climate-neutral via emission certificates
	Events (Annual Press Briefing, Analyst Conference, virtual AGM)	9	2	Climate-neutral via emission certificates
		468	557	

1) Calculation based on the contractually agreed upon annual mileage.

2) Only paper; calculation in accordance with <https://www.papiernetz.de/informationen/nachhaltigkeitsrechner/>, locations in Germany.

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