

Combined Separate Non-Financial Report 2019

Deutsche Pfandbriefbank Group



Additional Information

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

pbb is a leading specialist bank for commercial real estate finance and public investment finance in Europe and the US. As a financing partner for the real estate industry and the public sector, the Bank holds an important real economic and macroeconomic function. At the same time, pbb ranks amongst the largest issuers of Pfandbriefe (German covered bonds), and is thus also a key issuer of covered bonds in Europe. This way, pbb bundles funds for granting loans, and transforms illiquid loans with concentrated risks into investment opportunities with a diversified risk structure and a high degree of fungibility. For details on the Group structure, business model and business strategy, please refer to the section on Fundamental Information about the Group in pbb Group's Combined Management Report 2019.

When carrying out its business activities, pbb Group is responsible for its environment:

- > Employees
- > Clients and banking partners
- > Equity and debt investors
- > Service providers and suppliers
- > Society and the environment.

Sustainability is our guiding principle. pbb Group defines sustainability as the self-conception, that its own actions provide an essential contribution to securing a long-term future and to consider the consequences for all stakeholders and the environment. pbb Group is convinced that law-abiding and honest conduct, responsible corporate governance, and adherence to high ethical principles are essential prerequisites for sustainability. pbb Group's aims to combine ongoing economic success with sustainability aspects in the best way possible, thereby creating long-term value for all stakeholders, establishing benefits to society, and protecting natural resources. Given ongoing changes of markets and stakeholder requirements, pbb Group deems a regular and open dialogue to be essential for identifying the needs of all stakeholder groups at an early stage, and being able to include these needs in decision-making processes.

For pbb Group, the active support of the development process towards sustainability is of special concern. That is why pbb Group's sustainability strategy is designed to continuously strengthen and extend sustainability awareness by implementing appropriate measures, as well as embedding sustainability aspects as an integral element within the company. The sustainability strategy focuses on aspects which, on the one hand, have a material impact on the Bank's business activities and business success, and which pbb Group, on the other hand, can significantly influence itself. Such relevant aspects are determined via a materiality analysis on an annual basis.

In 2018, the CSR Committee, which is pbb's prevailing body for advancing its sustainability strategy, decided to optimise pbb Group's sustainability strategy by taking into account the Sustainable Development Goals (SDGs) – with the goal to support sustainable growth, and thus to actively shape a successful future by creating a solid basis.

Strategy



In a first step, the SDGs were prioritised and split into three groups: SDGs where pbb Group is able to make a strong positive contribution, SDGs where pbb Group is able to make a direct or indirect positive contribution and SDGs where pbb Group is able to avoid negative implications.

Against this background, four SDGs were identified to be relevant for the increase of the Group's contribution to sustainability: gender equality; industry, innovation and infrastructure; decent work and economic growth; sustainable cities and communities. These four SDGs are covered in more detail below:

Laying a solid foundation

To be able to deliver solid economic results in the long term, laying a strong foundation is paramount. Sustainable success needs thorough groundwork. That is why action is required to strengthen – and deepen – core areas of expertise. As regards the SDGs, pbb Group can make a strong positive contribution looking at gender equality, as well as industry, innovation and infrastructure.



5 Gender equality

In its Code of Conduct (published online at www.pfandbriefbank.com/en/unternehmen/corporate-responsibility.html), pbb Group has committed itself to respect all people, irrespective of age, sex, race, social background, skills, sexual orientation or religion, which is intrinsically linked with the principle of equal opportunity and thus with that of gender equality. This is being supported by an increased awareness across all levels, the establishment of a corresponding management and corporate culture, and the internal obligation to specifically address the under-represented gender for the given situation when filling vacant positions, whilst taking suitability and qualifications into account – a direct line to target 5 of goal 5:

Goal target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.



9 Industry, innovation and infrastructure

pbb Group makes quite a strong positive contribution to target 1 of goal 9 by providing funding for commercial real estate and public investment projects. Commercial Real Estate Finance is certainly about creating housing and office space, but it is also about fulfilling local everyday shopping needs. In Public Investment Finance, the focus is on public housing, utilities and waste management, healthcare and nursing care properties, as well as childcare and educational facilities.

The CAPVERIANT platform for municipal financing, a pbb subsidiary, supports the government in raising funding for modernising government infrastructure with a transparent and secure portal that brings credit supply and demand together. A cooperation between CAPVERIANT and KfW has been running since November 2019 to search for subsidies via the platform, which represents a major step forward in the expansion of the service offering for municipalities.

Goal target 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.

Fostering sustainable growth

As pbb Group is committed to long-term and substantial success, it emphasizes healthy and sustainable growth. A core element to this is making sure people are working under humane conditions.



8 Decent work and economic growth

pbb's business model requires highly qualified employees with expert knowledge. The objective therefore is to attract, retain and develop – for the long run – highly qualified employees with deep knowledge, a significant degree of customer focus, leading competence at both divisional and project level, the willingness to be deployed flexibly, and a high degree of entrepreneurial thinking. As postulated in target 5 of goal 8, pbb Group respects all people, independent of age, sex, race, social background, skills, sexual orientation or religion. No form of unfair treatment or discrimination will be tolerated. Labour laws must be safeguarded, and good working conditions must be ensured.

It is important that all employees be bound by the Code of Conduct, the document that makes it clear to all members of staff what pbb Group deems non-negotiable. pbb has an internal office that employees may turn to when they feel that discrimination pursuant to the German General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz – "AGG") has occurred.

The value chain is another place in which to make sure that people work in a safe and secure environment. This applies not only to service providers and suppliers of pbb Group, but also to the lending business itself. pbb Group provides for that – not only with the Know Your Customer (KYC) process for clients and business partners, but also in its core business, where internal or external experts give appraisals.

Markets, technologies, and – as a consequence – society are experiencing ever faster and greater changes. To live up to these changes, it is important to adapt if one wants to ensure sustainable growth. In line with target 2 of goal 8, pbb Group has committed itself to identify changes and trends, and react accordingly. One example is the digital transformation of the Group, something that affects primarily client interfaces, internal processes as well as new products and services.

Goal target 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

Goal target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Goal target 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

Shaping a successful future

Shaping and securing the future and the prosperity for the next generations is quite a challenge; there are also ecological aspects to it, such as the preservation of natural resources. Making cities and communities sustainable, as undertaken in SDG 11, is of particular importance in this respect.



11 Sustainable cities and communities

As one of the leading European specialist banks for real estate finance and public investment finance, pbb Group is materially engaged in creating sustainable cities and communities. Sustainability in this context means developing urban living spaces with a functional infrastructure, improving the standard of living. It also means looking at how the buildings themselves are constructed. pbb Group is active in various working groups that focus on developing sustainability standards that will help safeguard natural resources and permanently minimise ecological footprints, making a direct positive contribution to target 3 of goal 11.

Goal target 11.3: By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.

CSR Committee and Corporate Governance Officer

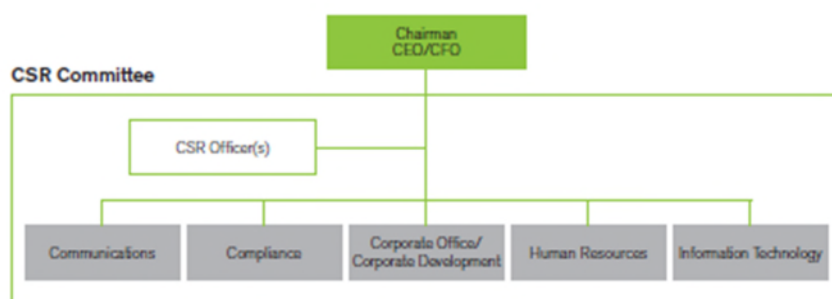
Established in 2017, the CSR Committee is a vital instrument for embedding sustainability topics in pbb Group. Internal rules of procedure determine the purpose and scope of action of the Committee.

The Management Board appoints the CSR Committee members. The Committee is comprised of the division heads of Communications, Compliance, Corporate Office/Corporate Development, Human Resources, Information Technology and the CSR Officer appointed by the CSR Committee.

Membership is linked to the respective function, ensuring that the different divisions are always represented within the Committee. The division head of Communications is the chairman of the CSR Committee.

The chief responsibility of the CSR Committee is to develop a sustainability strategy, and to monitor its implementation. In addition, it determines sustainability targets and the measures necessary to achieve them. Within the scope of an ordinary meeting, held at least once a year, the CSR Officer(s) provide(s) information about current legal developments and market requirements, as well as about the status of implementation and the level of completion of measures and targets determined. Based on this, the CSR Committee may approve new measures and targets where appropriate. The CSR Committee generally follows the principle of materiality when assessing and prioritising measures and targets.

Minutes shall be prepared for any and all meetings. The Management Board shall be informed about the date and time of meetings in a timely manner, and may attend them if desired. Furthermore, the Management Board may obtain further reports and recommendations by the CSR Committee at any time.



Andreas Arndt (CEO/CFO), Member of the Management Board responsible for Corporate Governance, is the Bank's Corporate Governance Officer.

Incentive system

The remuneration system is another vital instrument for deeply embedding sustainability topics in pbb Group. As per its structure, the remuneration system explicitly considers the sustainable development of pbb Group. The focus lies on the economic success of the company (for further details, please refer to the Remuneration Report in the Combined Management Report 2019).

MATERIALITY ANALYSIS

In 2017 and 2018, pbb Group carried out a materiality analysis to identify those aspects of sustainability that are material for pbb Group and its stakeholders. The stakeholder groups that had been identified as material in these analyses were the basis for the materiality analysis during the year under review.

In addition to the general topics of environment, employee and social matters, and corporate governance, particular emphasis in 2019 was placed once more on the identification of industry-specific and pbb Group-specific aspects. The assessment of the topics and aspects with regard to their business relevance and their impact on the Bank's business activities, as well as their position in the value chain, did not change on the previous year, which is why the CSR Committee affirmed them for the non-financial report 2019.

Stakeholder



The aspects identified as relevant for pbb Group were assessed with regard to their materiality. pbb Group's CSR Officers assessed the business relevance and impact of business activities according to the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz).

Relevance for stakeholder groups was elicited by inviting the material stakeholder groups to participate in an online service and share their views on non-financial topics and aspects.

The results of the materiality analysis were presented to and discussed within the CSR Committee.

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 is comparatively small 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 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, 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 materiality 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.

Environmental matters were not deemed material.

Even though the materiality analysis does not suggest that the aspects of diversity, occupational safety and mobility are relevant, we report on them on a voluntary basis since our society, employees and environment stakeholder groups consider them material.

In addition, within the framework of the materiality analysis, the essential aspects along the value chain were categorised, and the potential influence of pbb Group along this chain was assessed. pbb Group provides a large part of 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. 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

Should pbb Group fail to appropriately take the sustainability aspects categorised as material into consideration, or even ignore them, especially financial and social risks would arise. Ecological risks play merely a minor role.

Financial risks result mainly from the following topics: employee matters, corporate governance, and industry-specific aspects. At the same time, this is the area with the greatest opportunities for pbb Group. The qualifications and satisfaction of our employees are the main foundation for the quality of their work, and thus for the Company's potential. In the case of corporate governance, pbb Group focuses mainly on potential financial damage resulting from Compliance effects, whereas in the case of industry-specific aspects, financial damage may occur due to all material aspects. Client orientation is a fundamental success factor for pbb Group in order to secure the financing portfolio; sustainable financing solutions reduce the credit default probability and increase the value of the collateral; risk management is a central monitoring and management system. It is however particularly the industry-specific aspects which allow pbb Group to positively stand out from its competitors in a direct comparison.

Potential financial risks along the value chain arise especially in connection with the own business activities; however, they also occur downstream with regard to sustainable financing solutions – by the construction and use of financed real estate objects and infrastructure projects.

pbb Group recognises social risks, mainly in relation to corporate governance and industry-specific aspects. Focus is especially laid on reputational risks, as reputational damage can have significant adverse effects on pbb Group's sustainable business success. 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 recognises ecological risks, particularly in relation to industry-specific aspects, and especially within the scope of sustainable financing solutions. Risks arising from non-sustainable construction and use of financed real estate objects and infrastructure projects are in focus, i.e. the potential ecological risks are primarily downstream of the own business activities along the value chain.

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

pbb Group's clients are fundamental to its business. Therefore, clients' needs are at the core of pbb Group's business activities, 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 upon trust between pbb Group and its clients.

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. In 2019, pbb Group held client events in Germany, France, the United States, Sweden and the United Kingdom, with a total of 1,750 attendees – including professional real estate clients and experts, as well as public investment finance clients.

pbb plans to organise similar client events in 2020.

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, other important locations throughout Europe as well as a representative office in New York. Overall, pbb Group maintains ten local 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 and real estate asset management. The purpose of this – and other teams – is to integrate existing know-how within the Bank, to build up more in-depth knowledge in a targeted manner, and to provide 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.

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 further details, please refer to the Risk and Opportunity Report in pbb Group's Combined Management Report 2019) and the Property Analysis & Valuation department for real estate valuation purposes, pbb intends to identify, and mitigate, potential risks at an early stage.

In 2019, we further intensified our client dialogue. Clients were asked, in numerous projects, to share their experiences, wishes and ideas to further improve pbb's products and services, or inspire new ones.

Client confidence plays another crucial role in pbb's business activities. As a prerequisite, pbb Group implements the necessary security standards in order to ascertain confidentiality of information about clients, and of all transaction data (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, and forms 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, he 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 (such as Internal Audit, Legal, or the Credit department).

In 2014, pbb Group introduced a new purchase guideline designed to streamline purchase processes, and established the so-called Compliance Caution Framework (CCF Scout). CCF Scout is used as an IT-based search engine to check business partners, counterparties, purchasers or suppliers for entries or any sort of conspicuous features immediately, and at an early stage, before new business is generated or an existing business relationship is extended. CCF Scout 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. 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 and effective complaints management that ensures the efficient, targeted 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 has established a dedicated process in order to ensure that complaints are dealt with efficiently – this process has been laid out in an internal guideline, which is binding for all employees. Via pbb Group's different homepages customers and other interested parties can get access to information about how complaints are being dealt with (inter alia information with regards to existing possibilities for complaints submission, the procedure of complaint management, alternative dispute settlement procedures). The centralized office responsible for complaints within pbb Group collects all complaints, reviews them on a regular basis, and provides reports to the Management Board and the Supervisory Board, amongst others. In 2019, the number of complaints was in the low double-digit range, as it had been during the previous years.

Sustainable financing solutions

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.

Besides economic aspects, ecological considerations, also the sustainability of income streams and the building structure itself all play important roles for the financing of commercial building projects and the overall real estate portfolio.

If pbb were to ignore its sustainability principles, the Group would considerably increase potential risk regarding interest and principal payments, and the repayment of granted loans. In addition, this would represent significant financial risk for clients and real estate investors, given that their equity investments would be drawn upon before the loans granted by pbb in any form of insolvency proceedings. Therefore, the interests of pbb Group are in line with general sustainability interests.

pbb Group adopts the principle of economic sustainability in the credit approval – which involves the Management Board – via a clearly defined and carefully designed due diligence process.

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 (e.g. property location, sales ratios, occupancy and vacancy rates, tenant structure, rental income, general administrative and maintenance costs) and financing considerations (e.g. financing volume and structure, loan-to-value ratios, financing conditions). The assessment of the building structure sustainability is generally based on the structural quality, taking ecological aspects into account, such as the composition and quality of the used materials and the quality of the construction work. Furthermore, eco certifications are taken into account, such as Green Building Programme certificates, or energy labels. If pbb were to

ignore contaminations of properties, or if it tolerated ecologically irresponsible construction work, the sustainability of the respective property (or the corresponding mortgage securities) would be jeopardised.

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 comprising 39 real estate surveyors, 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, our surveyors provide an assessment of the real estate regarding its economic and structural 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 stability of the property value as a financing object is explicitly considered through the lending value concept. More specifically, sustainability aspects such as the energy efficiency of a building, or any contaminations, are considered very carefully in the valuation of properties. 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 (e.g. modernisation or renovation activities) as part of so-called 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.

In 2019, pbb initiated a project to identify so-called green properties for new business. A task force is currently evaluating appropriate parameters to facilitate the classification of a property as being green or not. This work will then lay the groundwork for a framework for green bond issuance. In line with market standards, the framework will be based primarily on maximum thresholds for energy consumption for electricity and heating purposes for each type of property.

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

Many of the public investment financing projects have a direct and sustainably positive social as well as environmental impact. For instance, pbb Group finances investments in social and health properties, public administration buildings, or renewable energy. Whilst the relevant credit process is largely in line with Commercial Real Estate Finance, pbb Group's lending business in Public Investment Finance is not only based on tangible assets and income generated from such assets, but additionally on the credit quality of public-sector entities such as cities or regions. Transactions are also geared towards sustainability: a detailed due diligence process is employed to ensure the long-term value of loan receivables – and hence, debt servicing ability as well as the ability to repay the loan. Social and environmental aspects are incorporated into the assessment.

pbb Group has committed itself to making an active contribution to further develop and promote 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. Through its participation in working groups as well as in various association bodies, the Group succeeded in further advancing sustainability standards:

For many years, pbb Group has recorded in its internal database whether a particular building has been certified. Since 2019, it must also be recorded what kind of certification the building has, and the status it achieved. 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. pbb Group is currently working on having these criteria included in an enhanced version of the LORA software, a product that is widely used in Germany for the financial assessment of properties.

Risik management

Besides client focus, risk management constitutes another core success factor for pbb to secure its sustainable business performance. Within the framework of risk management, pbb Group identifies, analyses and monitors all potential risks. 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 processes. Please refer to the Risk and Opportunity Report in pbb Group's Combined Management Report 2019 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 indispensable 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 work 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, preventing money laundering and market abuse.

pbb Group strives for not supporting any visible business practices that could harm our reputation or give rise to any suspicion that clients or suppliers would thereby violate pbb Group's 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 rules and detailed process descriptions. 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 furthermore reflects current national and international developments, alongside standards of good and responsible corporate management.

Compliance

Compliance means building effective management structures to ensure 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 German Banking Act (Kreditwesengesetz – "KWG"), the German Securities Trading Act, and the regulations and guidelines based on these documents.

Compliance risks include sanctions, financial losses and reputational risks that may arise from violations of these rules. The Group takes any fraudulent act very 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. We need to be able to rely on each other, and our clients must be able to trust us. As our employees play a central role in this context, we have established tools that allow our internal staff – as well as external third parties – to blow the whistle on statutory violations and undesirable conduct. Compliance regularly reports on these tools to the Management Board and Supervisory Board.

pbb employees are bound by numerous internal rules 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 of pbb's employees are obliged to take part in compliance trainings when they join the Bank and on a regular basis thereafter. These trainings 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. The successful participation in these trainings is certified following a test. pbb wants its compliance trainings to align with the Bank's current business model and to cater to the needs of the respective target audience. It therefore offers not only regular trainings, but also individual seminars, workshops and other trainings on demand. Group Internal Audit and external auditors regularly review how these trainings are conducted.

Banks are bound by a plethora of legal, regulatory and administrative requirements 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, such as a centralised monitoring process for Key Controls and risks. This so-called Control Attestation Process includes a quarterly report of all Divisions to Compliance.

pbb has identified key risks for this process, based on the risk map and the annual Operational Risk Assessment. These key risks have been assigned so-called Key Controls, which are subject to a continuous monitoring and confirmation process. The state of the internal control system is regularly reported to the Management Board and the Supervisory Board, based on the Key Controls in all business divisions.

In January 2018, the legal monitoring system was replaced by a new workflow system to identify which norms and regulations apply to pbb and ensure adherence. The new system offers comprehensive content on norms – quality-assured by a third party and edited – and is designed to help ensure risk allocation, assessment and monitoring in a single system, while also offering the option of linking the system to other systems of the Bank. All business divisions have access to this system and are obliged to identify the norms that are relevant to them, and assess them from a risk perspective. For material norms, a comprehensive control mechanism applies, with the business areas reporting to Compliance on how and to which extent this is done.

Compliance advises the business areas and monitors handling, together with an expert committee (LRRRC); it also reports directly to the Management Board and the Supervisory Board.

Pursuant to article 18 of the Market Abuse Regulation, issuers or any person acting by order of or for the account of such issuer must maintain lists of persons who are active on their behalf, and who are authorised to access inside information. pbb Group shall inform these persons on the legal duties associated with access to inside information, and on the legal consequences of violations of rules.

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 (incl. 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 us to rank and compare them, to monitor their performance, and talk openly about weak spots.

The relevant Compliance processes are continuously reviewed in pursuit of further digitalisation, expansion of the monitoring system, and reconciliation with pbb Group's risk information. 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 committed to very high standards in the prevention of money laundering and the financing of terrorism, to ensure that constant reforms are always accounted for. The Group has installed comprehensive policies, rules and regulations, and requires all employees to adhere to its stipulations. 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. A new KYC team (the Client Lifecycle Management Team) was established at the First Line of Defence in January 2020, to support sales-related units in complying with legal requirements and audits. The task of preventing money laundering and financing of terrorism is constantly revised, and is reviewed by Internal Audit on an annual basis. It is also covered during the audit of the financial statements.

Anti-corruption and bribery

In order to protect against corruption, pbb Group has established clear principles and guidelines for proper and professional conduct – for example in case of conflicts of interest: or in order to fight corruption, active and passive bribery. Special attention is given to accepting and granting benefits and gifts.

In their interactions with government representatives and public agencies, staff must refrain from any actions that could unlawfully influence the decisions of officials. 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.

Data protection

Handling confidential data with great care is a top priority. We adhere, inter alia, to the EU General Data Protection Regulation, to the German Data Protection Act (Bundesdatenschutzgesetz – “BDSG”), to national/international legal and regulatory provisions, to contractually agreed confidentiality clauses (including concerning the so-called “banking secrecy”) as well as to internal regulations on data protection. To ensure that these data protection requirements are met, pbb has implemented controls and sanctions. An in-house data protection officer, in his or her management function, also exercises control tasks.

Further, the issue of data protection is covered in every employment contract, and our staff receive ongoing training regarding data protection issues. Any breach of the data protection rules and regulations may have disciplinary consequences.

Competition and antitrust legislation

In its Code of Conduct and internal instructions, pbb Group has set high standards of compliance with competition and antitrust stipulations as well as rules for discussions with competitors.

The business areas that are of relevance in terms of competition law have been identified. The heads of these business areas are required to regularly report on the Bank's alignment with competition and antitrust legislation to Compliance, as laid out in pbb Group's control concept.

Respect for human rights

Respecting human rights is a matter of great importance to pbb Group. Above and beyond legal requirements, such as set by the German General Act on Equal Treatment and the German Act to Promote Transparency of Pay Structures, pbb Group has installed further non-negotiable stipulations in its Code of Conduct. The Code of Conduct is partly based on the European Convention on Human Rights. pbb Group has bound itself to respecting and complying with human rights. It therefore expressly distances itself from any violation of these rights, whether committed by a member of staff or another stakeholder groups. Transparency, honesty, fairness, as well as dignity and respect are among the most central maxims.

Honouring human rights is paramount – along the entire value chain of pbb Group. It is therefore not only the responsibility of a single function or office, but enshrined in the processes of all material areas, from Human Resources to Loan Markets, or Property Analysis & Valuation.

pbb Group respects all people, independent of age, sex, race, social background, skills, sexual orientation or religion, and is committed to fostering diversity amongst its staff as far as possible. No form of unfair treatment or discrimination will be tolerated. pbb Group sets great store by the diversity of its workforce, which is why the Group is devoted to preventing or removing discrimination against all employees. In terms of prevention, it is important that all employees be bound by the Code of Conduct, the document that makes it clear to all members of staff what pbb Group deems non-negotiable.

pbb has a Complaints Office that employees may turn to when they feel that discrimination pursuant to the German General Act on Equal Treatment has occurred. Complaints made thereto will be reported to the Head of Human Resources, and followed up by an internal clearance and review as to whether the General Act on Equal Treatment has indeed been violated. Depending on the severity, the implications and the legal or economic risks associated with the violation, other entities such as Data Protection, Compliance, Legal, the Management Board or the Works Council may be involved where necessary. Based on the result of the review, further action and appropriate measures will be discussed and decided upon. The Complaints Office informs the complainant about the handling of his or her complaint, and will include a reasoning if the complaint is rejected. The complaint is

documented separately from the personnel file. Employees who discriminate against others do so knowing that there will be labour law-related sanctions and disciplinary measures for their behaviour, ranging from a written warning to a possible redeployment or even dismissal. Furthermore, employees can access a dedicated pamphlet on the pbb intranet that provides information concerning protective measures against discrimination.

pbb Group employees are also duty-bound when it comes to human rights violations by other stakeholders. Should a staff member become aware of any indications that a prospective client or other business partner may be involved in illegal activities or activities that could damage our reputation, they must inform the Member of the Management Board responsible for the relevant area, as well as the Compliance Officer, in accordance with our Code of Conduct. The relevant Member of the Management Board, by involving the Compliance function, will then arrange for an investigation of the specific circumstances. In addition, other organisational units within the Group may also be involved in any further investigations (e.g. Internal Audit, Legal, etc.). The issue is also covered on a preventive basis during the Know Your Customer processes on clients and business partners, as well as during country analysis aimed at identifying target markets. A similar procedure applies to suppliers. In 2019, 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. There are plans to expand the scope of this statement to the entire pbb Group.

The issue of human rights is also part of the credit process. Anything that may point to human rights being violated must be noted in the credit application, as part of the assessment or the ongoing credit management.

The Management Board and the Audit Committee are informed about compliance-relevant topics on a quarterly basis. This also applies to human rights abuses that have been reported or have occurred, but in the case of serious breaches, the Management Board and the Audit Committee will be informed as soon as possible.

Further information on human rights can be found in some of the chapters on sustainability issues.

No human rights abuses were known at pbb Group during the 2019 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. pbb Group's 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's business model requires highly qualified employees with expert knowledge. The key objective of pbb Group's HR strategy therefore is to attract, retain and develop – for the long run – highly qualified employees with vast knowledge, a high degree of quality awareness, customer focus, leading competence at both divisional and project level, the willingness to be deployed flexibly, and a high degree of entrepreneurial thinking.

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 meticulously and systematically assessed and managed from a far-sighted point of view, as part of pbb Group's multi-year planning. We take great care in structuring our organisation and workflows efficiently, and with a focus on our clients. Our lean processes are continuously optimised, also for the purpose of cost-effectiveness.

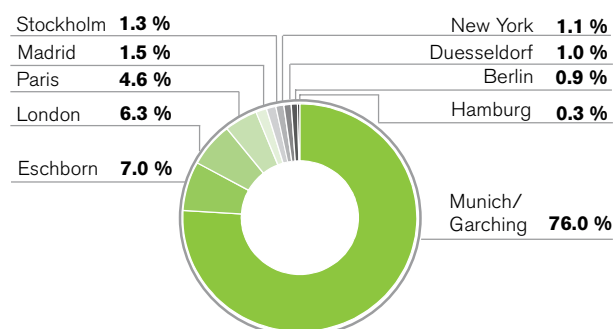
One key element of our HR work is of course the recruitment strategy; another is the successful, diversified internal and external qualification programme, and yet another is the variable remuneration structure, which features incentives for individual performance and promotes cooperation between business divisions, departments and teams.

This shows that our HR strategy directly helps to ensure 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. pbb Group's working conditions, qualification opportunities and development prospects create opportunities for discovering individual solutions in a dynamic working environment, together with pbb's customers, thinking and acting in a customer-oriented entrepreneurial way.

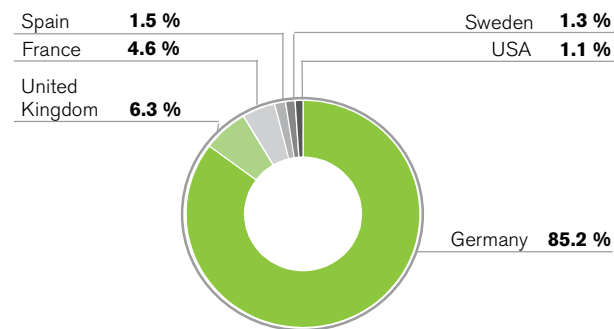
To attract and retain talented employees and managers in the long run, pbb will further increase its positioning and attractiveness during 2020 as a modern and flexible employer. Above and beyond the reinforcement of its recruiting strategy, the Bank's efforts in the field will focus on promoting trainees, talent, and women – as well as diversity. An employer brand is currently being built and can be expected to be finalised in 2020, with subsequent implementation.

Regional distribution of employees (pbb Group) As of 31 December 2019

Location



Country



As in the previous year, pbb Group's workforce remained stable during 2019. pbb Group employed a total of 797 people at the end of 2019¹ (2018: 793 people). In 2019, the adjusted² fluctuation for pbb Group was 10.39% (2018: 8.41%). The ratio of voluntary redundancies was 4.18% (2018: 5.35%).

¹ Headcount pursuant to the HGB (excluding Members of the Management Board, interns and student employees). pbb AG employs 779 people, CAPVERIANT GmbH 18 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 791 (pursuant to the HGB). With various functions being centralised in 2019, and the corresponding staff reductions, fluctuation during the year under review was slightly higher than in 2018.

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. The Bank also strives to grant industry-standard employee benefits, while also taking local idiosyncrasies into account. The remuneration strategy is an integral part of the HR 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 Members of the Management Board and employees, are subject to regular revision in order to establish an appropriate relation regarding function and performance as well as pbb Group's overall performance. Moreover, the appropriateness of the Group's remuneration system is reviewed by an independent external remuneration consultant, who used external benchmarks to produce market comparisons of remuneration amounts and structures. Also in 2019 the system, structures and amounts of remunerations were reviewed for appropriateness, and confirmed as such by both the Management Board and the Supervisory Board. 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 German Banking Act (Kreditwesengesetz – “KWG”), pursuant to 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 (Aktengesetz – “AktG”) and the German Corporate Governance Code (Deutscher Corporate Governance Kodex – “DCGK”). Compatibility of the remuneration system with the central regulatory requirements is regularly reviewed and approved by an independent external remuneration consultant, external lawyers, and the auditor. pbb established dedicated processes to ensure that any future regulatory changes will be implemented in a timely manner. In 2019, the Bank adjusted its remuneration system, which was developed in 2015, to meet the requirements of the revision of the IVV as amended on 4 August 2017.

The remuneration system of pbb Group is explained in detail in the Remuneration Report of pbb Group's Annual Report.

Fair remuneration

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, sex, religion or personal beliefs, handicaps, 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 to 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, sex, religion or personal beliefs, handicaps, age and sexual orientation. With this approach, it is warranted that non-tariff employees also receive an adequate and fair remuneration.

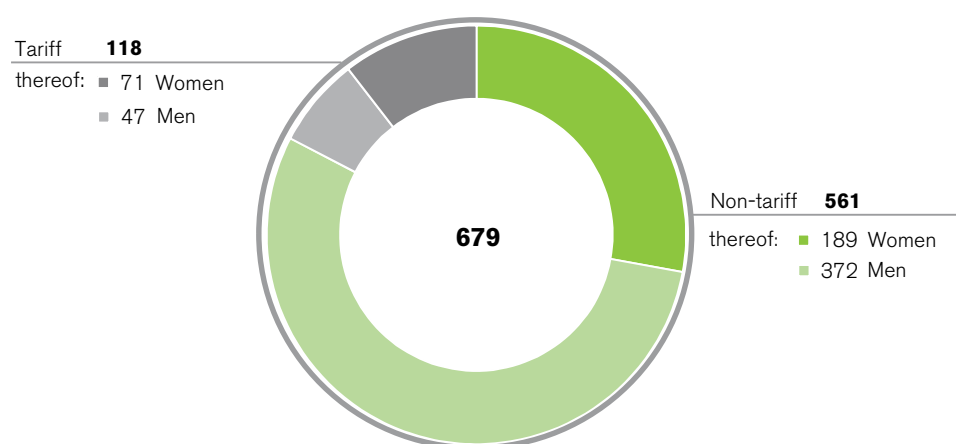
Variable remuneration, which applies throughout pbb and all other Group entities in as uniform and viable a manner as possible, is determined using a formalised and transparent process, harmonised across the Group. Allocation of variable remuneration is based on the achievement of qualitative and quantitative 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. 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 entire Management Board of pbb adopts the divisional targets, which are communicated to all employees of the respective divisions at the beginning of the year. 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 2019



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. Depending upon the position an employee holds within the Bank, and/or of the necessity of a car for company travel, pbb Group grants company cars that may be used for private journeys at all German locations.

In Garching and Eschborn, voluntary preventive healthcare measures such as free influenza vaccinations, health checks and computer glasses are available. pbb also has a workplace integration management system in place, which all employees affected may make use of.

During 2019, 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

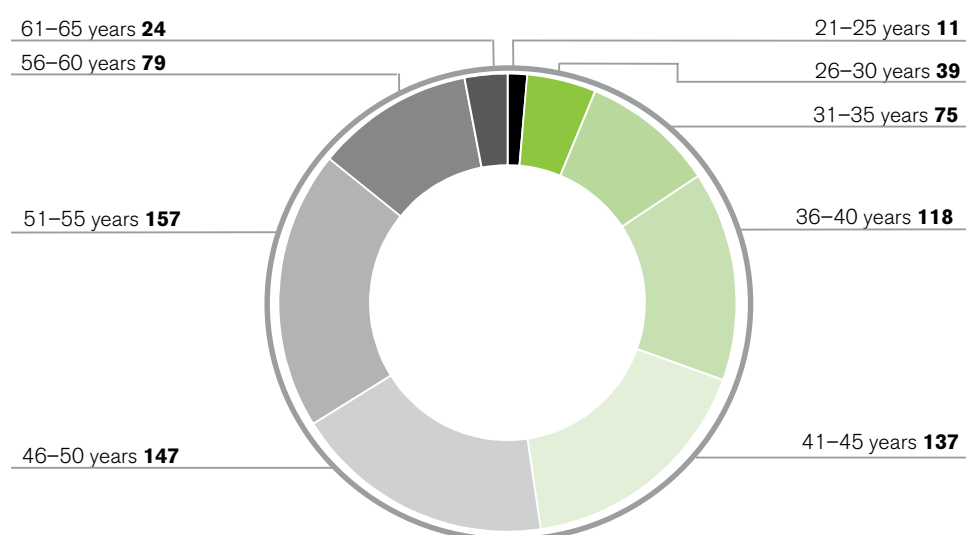
At all of its locations, pbb Group provides its workforce with a modern, secure and healthy environment to work in. Such an environment was also at the core of the move to Garching in 2019. In Garching, pbb Group provides an attractive, transparent and open layout – to further encourage collaboration and communication amongst employees.

pbb Group employs women and men from many different nationalities with different skills and different backgrounds. This workforce forms 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, sex, religion or personal beliefs, handicaps, age or sexual orientation.

Employees are assessed on their performance alone. pbb Group honours the legal and contractual rights of its employees. These values are essential to the instruction related to compliance, which employees must adhere to as per operating agreements and/or their employment contract, as well as to pbb's Code of Conduct. They form 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 our Corporate Governance Report, published as part of the Annual Report 2019.

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 31 December 2019



Nationalities of pbb Group's employees

31 December 2019

Austrian	9	Macedonia	1
Belgian	2	Peruvian	1
British	35	Poland	4
Burundian	1	Rumania	1
Chinesen	3	Russia	3
Croatian	1	Serbia	1
Czech	2	Slovenian	1
Danish	1	Spain	15
Dutch	5	South African	1
French	43	Swedish	10
German	628	Swiss	1
Indian	5	Turkish	1
Iranian	1	Ukranian	1
Irish	4	US American	8
Italian	6	Vietnamese	1
Latvia	1		
Total			797

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. We take heed of an even-keeled structure of our workforce in the demographic sense, and employ 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 that includes the company doctor, the occupational safety specialist, as well as representatives of the Works Council and the safety officers, 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 2019, we conducted 39 preventive checkups on working with display screen equipment, one workplace health promotion (taking the form of a free health evaluation), one extensive consultation on individual topics and 67 vaccination advice sessions/vaccinations. Our offer to visit a company doctor was taken up by a total of 108 employees.

pbb's managers received training on occupational safety issues from the occupational safety and health specialist in 2019, 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 2019, there was again strong demand among employees in Germany for the Bank's subsidies for preventive healthcare. 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 the Bank's endeavour to recruit new employees and become a more attractive employer.

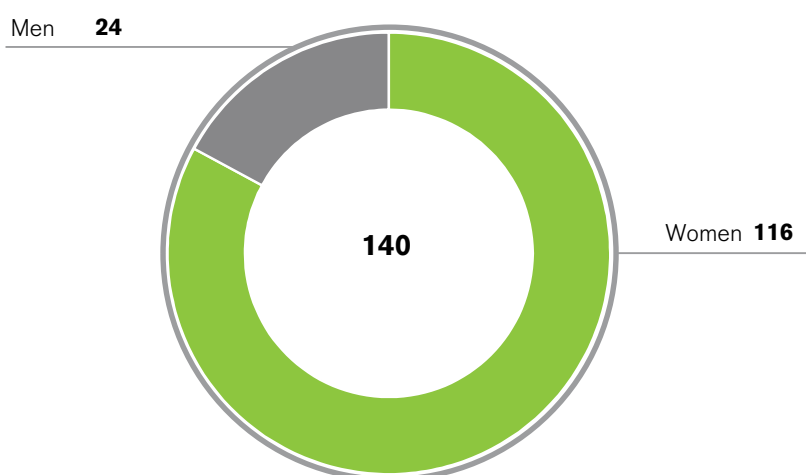
By providing the corresponding work organisational conditions, such as flexible working models or the possibility of working at home, pbb Group offers attractive arrangements that make it easier to balance work and family for all employees. Parental leave is granted in line with statutory provisions; 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 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.

In the year 2019, pbb Group continued to back employees in balancing working and family life by providing practical support for everyday situations. One example of pbb Group's commitment to its employees' work-life balance is an office established at its new Garching location, which has been equipped with furniture and features appropriate for children and for two employees to "work with children". In 2019, pbb also introduced a "family service" for all employees based in Germany, which provides agency and selective advisory services. This new offering has been taken up by employees in particular for childminding, homecare and eldercare. Similar to the situation in France and the UK, childminding costs for children that have not yet reached school age can now be subsidised in Germany as well. The maximum subsidy in Germany amounts to €100 per month and child. In 2019, a total of 104 employees made use of this childcare allowance.

The flexible working opportunities and the support given to family and working life balance is also demonstrated by the 17.57% share of staff in part-time employment (part-time rate of women: 37.79% and of men: 4.90%).

Part-time distribution (pbb Group)

As of 31 December 2019



Involvement and co-determination

In Germany, pbb has two local Works Councils (in Garching and Eschborn) as well as a representation body for severely handicapped 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 2019, 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 is working time.

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 (CPD) 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 that encourage experienced managers to reflect on and improve their management and social skills in an ever more challenging and complex working environment. 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.

In 2019, two additional in-house measures for continuous professional development were offered, aiming at improving and expanding the social and methodological skills associated with presenting and moderating – both of which are required in numerous processes.

The continued systematic development on the one hand, and a personnel development that is aligned with the individual requirements of divisions and employees on the other, 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 2020 and beyond, to support our staff in their professional and personal growth in a modern and goal-driven way. New measures aimed at agile project management as well as further trainings to promote those skills that are necessary for objective and standardised interviews are on the agenda.

In addition to the internal on-the-job and near-the-job measures – organised centrally as well as decentralised – pbb 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 €1.1 million (2018: €0.9 million) during 2019. This was equivalent to 3.8 training days on average for each employee (based on an average headcount pursuant to the HGB of 791), or 6.0 days on average for the 483 staff members who took part in the qualification measures.

Knowledge management

In order to make the transition into their job at pbb Group easier for new employees, the Bank is directing a lot of attention to its 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 requested by HR as a standard procedure with each new recruitment. pbb Group organises a "Welcome Day" several times a year for all new staff members, providing information on the organisation, the business model and pbb's primary process, as well as on interesting facts from the Human Resources department. 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. For new employees, a welcome brochure with "nice-to-know" information on pbb's locations has been published. New employees receive this brochure on their first day of work at pbb; it is also available on the intranet. We further expanded our social media recruiting during 2019, professionalising the Group's social media presence and qualifying our staff in the use of social media recruitment and active recruitment strategies.

Another centrepiece of our recruitment strategy was university marketing, with pbb participating in ten major recruitment fairs in 2019. In addition, particular universities were identified with which we would like to intensify our connections in the future, and we have case studies scheduled for 2020 to familiarise interested students at partner universities with pbb Group at a faster pace. During the year under review, pbb employees delivered guest lectures on different subjects at universities.

pbb Group has a trainee programme called "Programme for Young Professionals" in place. Young professionals taking part in this 12- to 18-month programme are employed in various areas over the period, thus receiving comprehensive training. This programme was enhanced in 2019 to improve scheduling and operational planning of trainee deployment as well as the overall management of the programme. Trainees will now gain experience not only in the Credit, Finance and Operations departments, but will also in Sales, Portfolio Analysis and Risk Controlling. From 2020 on, the trainee programme will include new measures to strengthen team development and improve the programme's attractiveness with additional impetus.

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.

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 departments, pbb Group has implemented various initiatives to attract young talent and strengthen their capabilities. In this context, pbb Group is increasingly paying attention to a better 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 one of our key success factors in attracting experts.

Furthermore, pbb Group has taken action with initiatives aimed at making the "pbb" brand more visible as an attractive employer to experts and young professionals (e.g. new online presence, social media/network presence, participation in selected recruiting fairs). In 2019, a project was also launched to draw up an employer brand for pbb Group. Following an extensive vendor selection process, the Management Board, managers and various employee groups participated in workshops to identify the (cultural) characteristics that define pbb Group as an employer. These findings will serve as the foundation upon which pbb's employer brand will be built in 2020; corresponding initiatives will also be launched.

The fact that 99% 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 unchanged low to average adjusted fluctuation rate¹ of below 10% in 2017 and 2018 and just over 10% in 2019 further demonstrates this.

¹ Adjusted fluctuation was calculated based on an average headcount of employees of 791 (pursuant to the HGB). With various functions being centralised in 2019, and the corresponding staff reductions, fluctuation during the year under review was slightly higher than in 2018.

ENVIRONMENT

The Group has committed itself to handling natural resources responsibly, to make an active contribution to climate protection by minimising its requirements for energy and raw materials, and to avoid environmental impacts. This is also defined in the Code of Conduct, in which pbb Group has obligated 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, 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 car pool and travel activity, on a quarterly basis.

Resource Management

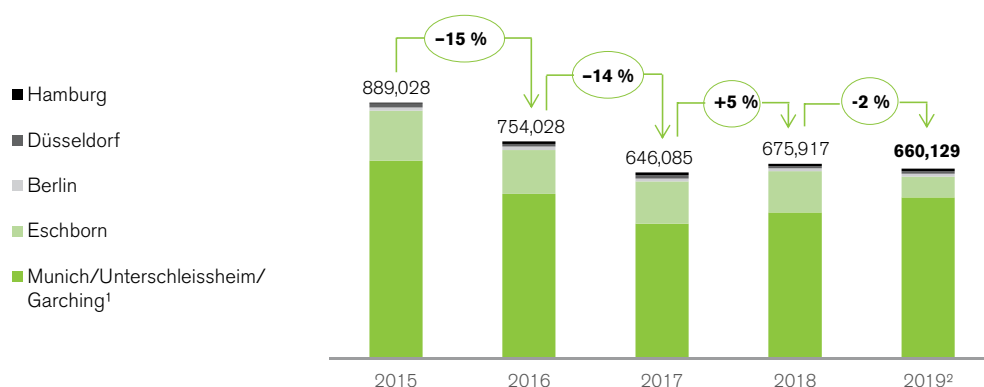
In July 2019, pbb Deutsche Pfandbriefbank AG moved its headquarters from Unterschleissheim to Garching, near Munich. Business Campus Garching, where pbb's new headquarters have been rented, generates electricity from four photovoltaic systems, with most of it being fed into the campus' electric grid. The remainder of the Bank's electricity is also green.

Furthermore, 100% of power demand at pbb's headquarters has been met using renewable energy sources since 2011. As all other German locations have also been using power from renewable energy sources since 2015, respective power supply is carbon-neutral.

Our Annual General Meeting 2019, together with the Annual Press Briefing and the Analyst Conference, were also carried out in a carbon-neutral way; this is also planned for 2020.

Power consumption

in kWh



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

² Estimated electricity consumption 2019 in Berlin, Düsseldorf and Hamburg, December 2019 in Eschborn.

Electricity is permanently saved by using energy-efficient office equipment, such as printers with the Energy Star certificate, and by a strict management of electronic devices in line with demand. With the relocation to Garching, we took the opportunity to reduce the number of printers we use. Whilst previously each department had their own printer, now there is one printer on each floor that can be shared by the various departments located there.

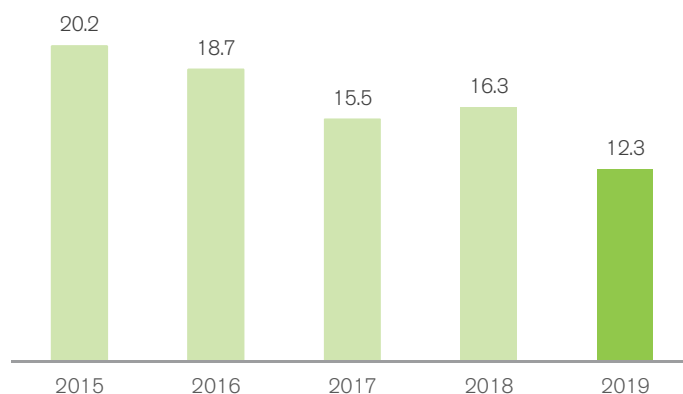
Our strict management of electronic devices ensures that only active employees have a computer: as soon as an employee leaves the Bank, they have to return their computer.

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 credit files and datarooms.

The paper we use is certified as eco-friendly. Our Annual Reports have been printed climate-neutral since 2015. Furthermore, pbb Group has refrained from the provision of printed interim reports since 2014 and of printing annual reports starting with the Annual Report 2019. We further support recycling by re-using cardboard boxes received as transport packaging.

Purchase of paper and cardboard

in t ¹⁾



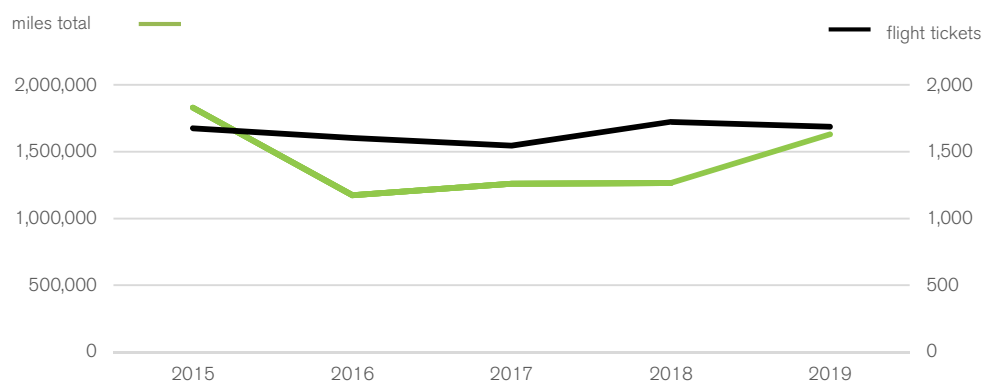
¹⁾ German locations, excluding printed material.

Mobility

The Travel Policy introduced in 2013 serves as a uniform groupwide standard for all employees' business travel. Besides simplifying effective management and control of travel expenses within pbb Group, it also aims to provide an active contribution to environmental protection.

Employees and their direct superior are jointly responsible for adherence to the Travel Policy, which they will confirm through their electronic signature when recording and approving travel expenses in a designated online tool. Deviations from the Travel Policy are to be avoided. Exemptions from this rule can only be made for the sake of time and cost efficiency and with the superiors' explicit consent.

Flight and travel



Initially, travel activity has decreased in the last years, both in terms of number of booked plane tickets, as well as regarding the amount of miles travelled. However, as a result of the opening of an own office in New York, US, the number of miles travelled saw a slight increase due to the long-distance flight – despite a decreasing number of tickets since 2017.

pbb Group further contributes to the reduction of business travel by the utilisation of video conference systems.

Company cars have to meet well-defined carbon dioxide emission standards in accordance with the Company Car Policy so as to limit their impact on the environment. Vehicles with emissions of more than 155g/km are given a financial penalty, whilst vehicles with emissions of more than 180g/km may not be purchased at all. These thresholds are based on measurements in accordance with the New European Driving Cycle (NEDC). The Worldwide Harmonised Light Vehicles Test Procedure (WLTP) applies to vehicles leased from February 2020 onwards. pbb Group has committed itself to checking these guideline values in the medium term and to align them to revised measurement methods. Compared with the previous year, the number of company cars was markedly reduced, from 105 vehicles in 2018 to 91 in 2019. Based on the NEDC, the average CO₂ emission was slightly down, from 138g/km in 2018 to 137g/km in 2019 (45 vehicles), while the WLTP average was 169g/km (46 vehicles).

Business Campus Garching

The newly built headquarters at Business Campus Garching was designed to ensure the responsible use of scarce resources 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.

The four photovoltaic systems mentioned above generate around 1.1MW of electricity per year, with a large proportion thereof 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.

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.

Above and beyond the economical use of natural resources, the Business Campus also offers the advantage of a modern mobility concept.

The location is very well connected to the local public transportation network – a high-frequency metro connection makes the use of public transport reliable and attractive for our employees.

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

At the new headquarters, employees can charge their e-bikes in the bike storage, and the landlord is planning to have an adequate – by today's and tomorrow's standards – charging station for electric cars installed in the P3 parking garage by the end of the second quarter of 2020. As pbb Group aims to provide further incentives for employees to use bicycles, the Bank is currently evaluating how to promote bicycle leasing amongst the workforce.