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Sustainability report

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List of abbreviations

Abbreviation	Description
Para.	Paragraph
AG	public limited company
Art.	Article no.
e.g.	for example
CHF	Swiss francs
CO ₂	carbon dioxide
CO ₂ -e	Measure used to compare emissions from various greenhouse gases by converting them to the equivalent amount of CO ₂
CSR	Corporate Social Responsibility
ESG	Environmental, Social, Governance
etc.	et cetera
ewz	Elektrizitätswerk der Stadt Zürich (Zurich Electrical Company)
FINMA	Swiss Financial Market Supervisory Authority
FSB	Financial Stability Board
ICS	internal control system
incl.	including
km	kilometres
kWh	kilowatt hours
m ³	cubic metres
MWh	megawatt hours
PET	polyethylene terephthalate
PfG	Pfandbriefgesetz (Pfandbrief Act)
PfV	Pfandbriefverordnung (Pfandbrief Ordinance)
PKW	passenger car
SBVg	Swiss Bankers Association
SDGs	Sustainable Development Goals
t	tonnes
TCFD	Task Force on Climate-related Financial Disclosures
VAB	Agreement on Terms of Employment for Bank Employees
VAZ	Agreement on the Recording of Working Time

1 Introduction and overview

1.1 Greeting

Dear Sir/Madam,

The concept of sustainability is important to us. To us, sustainable management consist of thinking and acting sensibly and with a long-term perspective.

Sustainability is the defining issue of our time. The effects of climate change are already evident and it is the responsibility of all of us to act, for today's society as well as for future generations. Even if it is often hard to reconcile wishes with feasibility, a "wait-and-see" approach is not practical – neither for politics nor for the economy. We will only succeed in shaping a sustainable future if we act together, quickly and purposefully.

Each individual company must be responsible for playing its part – not just the economy as a whole. As Pfandbriefbank, we want to meet the requirements that society has of our environmentally and socially conscious company as part of our public mandate in accordance with the Pfandbrief Act. We want to, and should, concentrate on this mandate and also fulfil it responsibly.

This requirement in itself is a long-term and social process; the Swiss Pfandbrief® is a product that is geared towards security and stability and is intended to make a significant contribution towards financing the upcoming transition towards a climate-efficient Swiss building stock. This transformation is a long-term process with a lot of dependencies. Ultimately, the decision to use more sustainable construction methods or to renovate is the owner's responsibility. Politics put suitable framework conditions in place, for example incentives or prohibitions as well as building guidelines or procedural requirements. However, limited capacity in the construction industry may prevent rapid progress – to a certain extent in the form of a bottleneck. There is no doubt that this is a long-term project, in which we will play a key role as an "enabler". We intend to actively support our member banks in this important task.

Yours sustainably,

Dr. R. Horat
Executive Director

P. Eichenberger
Deputy Director

1.2 About the report (classification, reason, procedure)

Dealing with people and resources sustainably and respectfully is just what we do here at Pfandbriefbank. We intend to use this report to showcase our activities and our commitment when it comes to sustainability. For years now we have been dedicatedly working to implement sustainable solutions in their entirety in all areas. We are proud to already be at an advanced stage in this respect, and to be able to offer a fundamentally sustainable product in the form of the Swiss Pfandbrief®. At the same time, we are aware that the job of improving sustainability is never finished, and we are continuously striving to continue on the path we have chosen.

In light of the above, we want to use this report to disclose how our company is having an impact on aspects related to environmental and employee issues, how we understand our contribution towards the Sustainable Development Goals (SDGs), and what measures we are taking internally for our employees and the environment. We are also disclosing our company's sustainability vision, and highlighting which international sustainability standard should support us with this in the future.

1.3 Our contribution towards achieving the SDGs

We see achieving the SDGs as the basis upon which our business activities are guided. The SDGs serve the purpose of ensuring sustainable development at an ecological, social and economic level. By taking them into consideration, we want to create a solid basis for long-term development and consequently for a sustainable and successful future. This is in line with our legal mandate and with the efforts by the Federal Council, which works at both national and international level to achieve the objectives of the 2030 Agenda for Sustainable Development.

We are focusing on working positively together on Goal 11 in particular.



"Making cities and human settlements inclusive, safe, resilient and sustainable"

SDG 11 – Sustainable cities and communities

Pfandbriefbank has a clear legal mandate: "To provide the owner with long-term mortgage loans at the lowest and most consistent interest rates possible" (Art. 1 PfG). By ensuring sufficient capital for financing properties, we are making a significant contribution towards creating sustainable cities and communities. By fulfilling our legal mandate, we are indirectly helping to ensure the availability of adequate affordable housing. We are thus contributing towards the social dimension of sustainability in the sense of SDG 11, in particular to subitem 11.1, which highlights "adequate, safe and affordable housing".

Furthermore, the Swiss Pfandbrief® is a central pillar for the upcoming process of transforming the country's housing stock towards greater environmental sustainability. Renovating the housing stock represents one of the core factors for sustainably reducing our society's energy requirements and for achieving the climate goals. Large amounts of additional capital are required for financing these modernisation investments. In addition to this, the housing stock that has not yet been refurbished still needs to be financed. Although the decision about whether to invest is taken by the property owner, the Swiss Pfandbrief® is becoming a relevant "enabler" for the necessary transformation process as an important, reliable, long-term and favourable source of refinancing for the mortgage market. In this way, we also make a major contribution towards the environmental dimension of sustainability in the sense of SDG 11.

The Pfandbrief system in Switzerland also ensures efficient access to the capital market for all banks. For small and medium-sized institutions which would otherwise have no access to this important source of refinancing, this can sometimes be essential for survival.

The Pfandbrief system therefore supports diversity in the banking sector, which is characterised by both large banks, who are focussed on the national market as well as small regional banks. The Swiss Pfandbrief system is also an important pillar for the functioning of the Swiss capital market, and in the past has also proven to be especially crisis-resistant and stable. The Swiss Pfandbrief® thereby contributes several times over as a stabilising factor to maintaining Switzerland's position as a functioning and resilient centre for banking and finance, and therefore indirectly to its social and economic stability.

2 About the company

2.1 The history of the Swiss Pfandbrief® and Pfandbriefbank

In Switzerland, the Pfandbrief Act (PfG), which was adopted by the Federal Assembly on 25 June 1930, forms the legal basis of and regulates the Pfandbrief business. It entered into force on 1 February 1931, three years before the Swiss Banking Act. It was introduced as a response to recurring problems in the mortgage credit business – such as the credit shortage and strong interest rate fluctuations – and the associated undesirable impacts on the economy and society.

The PfG made the foundation of the Pfandbriefbank schweizerischer Hypothekarinstitute AG, generally known as "Pfandbriefbank" possible. Pfandbriefbank and Pfandbriefzentrale der schweizerischen Kantonalbanken AG are the two institutions to issue Swiss Pfandbriefe® and to pass on the proceeds to its members to refinance their mortgage business. Although they are organised as stock corporations, both Pfandbrief institutions have thus far operated as joint undertakings and central issuing offices for their member banks. The business activities are definitively and narrowly defined by law, and only allow Pfandbriefbank to carry out activities directly associated with the Pfandbrief business.

Pfandbriefbank is one of the most crisis-resistant institutions in Switzerland. Since the adoption of the PfG in 1931 it has never failed, despite many, sometimes major financial and real estate crises. While other institutions in Switzerland have had to accept losses or even bankruptcy, the Pfandbrief institutions and their investors have remained unaffected. During the financial crisis between 2008 and 2012, Pfandbriefbank was even part of the solution to prevent more dramatic consequences as a "silent saviour".¹

2.2 Our company

The legal purpose of the Swiss Pfandbrief business is to provide property owners with long-term mortgage loans at the lowest and most constant interest rates possible. This is why we issue Swiss Pfandbriefe® and grant member banks mortgage loans against mortgage-backed collateral (registered lien) from the proceeds to refinance their mortgage lending business.

In carrying out our business activities, we are responsible for:

- employees,
- member banks (clients and shareholders at the same time),
- Pfandbrief investors,
- other business partners such as service providers and suppliers, as well as
- society and environment.

¹ Dewet Moser: Der stille Retter der Grossbanken – Der Limmat-Pfandbrief leitete in der Krise die Überschussliquidität im Finanzplatz zu den Grossbanken um und ersparte der Schweiz teure Staatsgarantien; ("The silent saviour of big banks – the Limmat Pfandbrief redirects excess liquidity in the financial sector to the major banks and saves Switzerland expensive state guarantees"); in: Finanz und Wirtschaft, 17 September 2014, Page 22.

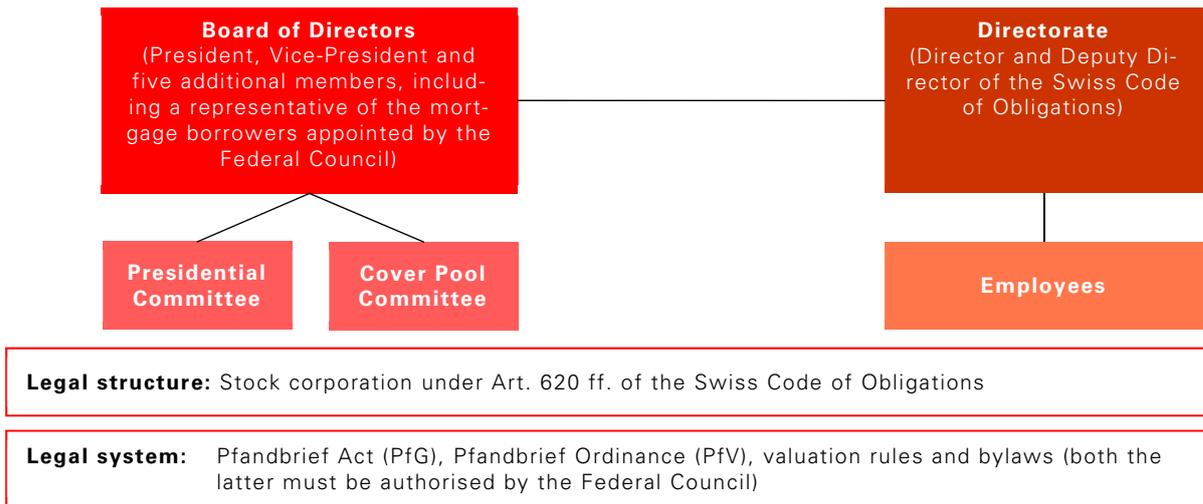


Fig. 1: The current structure of Pfandbriefbank (own illustration)

The principle of sustainability is the guiding idea in carrying out this responsibility. This already follows from the statute stating its purpose. In accordance with our mandate, we contribute towards a stable, adequately funded and properly functioning mortgage market as an important basis for the economy. Only under these conditions can the market provide enough affordable housing. Likewise, an adequate supply of capital is one of the basic requirements for the ongoing transformation process of improving the energy efficiency of the Swiss housing stock. Our product, the Swiss Pfandbrief®, is therefore a sustainable instrument with both a social and an environmental dimension of sustainability.

Furthermore, we want to contribute towards securing our long-term future through our own actions. In doing so, we intend to take into account the consequences for all stakeholders in the company as well as the environment.

Our vision is to represent the "extended arm" of the refinancing departments of our member banks. We provide our member banks with a reliable, long-term and cheap source of funding. As a joint undertaking, we provide all member banks with efficient access to the capital market by issuing Pfandbrief securities. In doing so, we also make a significant contribution towards the well-established diversity in the Swiss banking sector.

Our Pfandbriefe offer investors the opportunity to make regular and large investments in bonds of the highest credit rating (Aaa/gilt-edged), which are eligible for repo transactions.

Our bonds have a significant share of the Swiss bond market for domestic borrowers. The investors also value our Pfandbriefe due to their high liquidity on the secondary market. This market liquidity is a major contributor to a functioning Swiss capital market and can also be seen on the Swiss repo market, where Swiss Pfandbriefe® likewise play a key role as collateral.

As well as their high volumes, the stable, top-class rating of our Pfandbriefe is a prerequisite for their high level of market liquidity. The Pfandbrief institutions are among the very few non-public sector debtors whose issuances belong to the highest credit rating category. We want to defend this rating so that we can continue to offer investors the security they are looking for and also to keep providing our member banks with reliable access to the capital market, even in difficult times. The market liquidity of Pfandbriefe helps the Swiss capital market; the high degree of security and the stability of Pfandbriefe have a positive impact on the Swiss financial system, especially during times of crisis.

The "Swiss Pfandbrief®" brand stands for the absolute highest investment quality. Swiss Pfandbriefe® enjoy preferential regulatory treatment.

We fulfil our legal mandate in a resource-saving and sustainable manner. In keeping with our vision and our legal mandate, our aim is not just to promote sustainability within our company but to make a long-lasting contribution to society.

Our guiding principles ensure that Pfandbriefbank is designed with security, stability and durability in mind. This also includes the sustainable management of our resources. In order to stay true to our guiding principles, we are active in a number of areas and ensure the following:

- For our members, we are an independent, reliable and low-interest source of funding. We offer banks stable and efficient access to the capital market regardless of their size. Because of this access to the capital market, the banks are shareholders of Pfandbriefbank.
- For investors, we are a highly appreciated, large debtor and regular issuer of standardised products of the highest credit rating, which are eligible for repo transactions and well established in the market, and also have a liquid secondary market.
- We want to develop and offer our products (Pfandbriefe/loans) and services to the highest standards, manageably, and – insofar as is possible within the narrow legal guidelines – innovatively, in a way that is both market-oriented and flexible.
- We invest our own funds primarily with a view to security and liquidity, and secondarily with a view to optimising risk/return.
- Our Corporate Governance model and business model are accordingly contemporary.
- To our employees, we are a modern and attractive employer, upon which they can depend and which offers opportunities. Working together well is important to us. Not only do we encourage an open and cooperative partnership among employees, but also with our partners (suppliers, service providers, member banks etc.).

2.3 Business areas and model

Our business model is conclusively regulated by law (Art. 5 PfG). Accordingly, it is simple and transparent. By law, the series of Pfandbriefe issued and the loans granted as a result must be matched by maturities and volumes for each series. The issue proceeds, including premiums and after deduction of direct emission costs, are forwarded to the member banks in full. There is a margin of a few basis points between the interest rate on the loans and the coupon of the bonds to cover general costs. The excess flows back to the member banks as a distribution and through the strengthening of the equity capital basis. The focus remains on the idea of self-help as conceived in 1930: Pfandbriefbank is a not-for-profit organisation. This model offers member banks reliable and extremely efficient access to the capital market. All members benefit from economies of scale.

The Pfandbrief Act stipulates that only Swiss banks may become members of Pfandbriefbank (Art. 4 PfG)² and also that refinancing only refers to the domestic mortgage lending business of member banks. The Pfandbrief institutions do not have Group structures, nor do they have any subsidiaries in foreign countries. Consequently, the business activities of Pfandbriefbank are restricted to Switzerland. Accordingly, high Swiss standards apply in regard to aspects such as human rights, working conditions and the environment. Issues relating to international tax planning practices can also be ruled out thanks to the clearly regulated legal framework of Pfandbriefbank.

² "[...] and more than 60 % of its assets created and published in accordance with the requirements of the Federal Council based on the most recent balance sheet consist of receivables that were acquired in the domestic mortgage credit business." (Art. 4 PfG)

Pfandbriefbank is permitted to engage in the following four types of business activity (Art. 5 PfG):



Fig. 2: The business areas of Pfandbriefbank (own graphic)

Issuance of Pfandbriefe

The demand from investors for Pfandbriefe and the demand from member banks for mortgage loans are ideally matched to one another. Contact with investors and analysts is important.

We strive to keep issue costs and placement costs low as well as keeping market liquidity for our bonds high.

The long-term stability of our Aaa rating and our high market liquidity are important reasons for purchasing our Pfandbriefe. The high level of security is also expressed in the privileged regulatory treatment of our Pfandbriefe.

Large investors in particular attach great importance to ample market liquidity when making investment decisions to ensure that they can obtain good pricing terms on the market at any time, even for larger transactions. The most important basis for market liquidity is high-volume series. This is why Pfandbriefbank regularly increases the volume of its existing Pfandbrief bonds.

Investing the proceeds from the issuance of Pfandbriefe in loans

We want to satisfy the requirements of our members as well as possible within the known framework. In our risk management system, the long-term security and stability of the joint undertaking plays a key role. We restrict the lending volume of member banks and of groups of member banks due to risk considerations. Our criteria for granting loans also take into account the borrowers future ability to make subsequent payments or provide substitute cover.

We assess the coverages conservatively and ensure good recoverability. We support our member banks in keeping a cover pool. We also keep an electronic mirror register.

Investing equity and debt capital

We want to invest our equity capital over the long term in a way that is safe and liquid (in CHF bonds with a high or highest credit rating as well as adequately diversified). The yield is subordinate to the security interest. We only buy securities that are eligible for repos to ensure that the liquidity of the investments remains first class.

Other short-term bank transactions

Other short-term bank transactions are only permissible insofar as they are required as part of the issuing of Pfandbriefe and the granting of loans (Art. 5 PfG). We primarily control our short-term liquidity through repo transactions.

2.4 Financial information

The financial information, including the management report, may be taken from our Annual Report (www.pfandbriefbank.ch).

2.5 Our values

As one of the two Pfandbrief institutions in Switzerland, we have both a direct and indirect impact on our economy, society and environment. We therefore see it as our responsibility to base our business activities on the core cooperative values of sustainability, solidarity, fairness, partnership, responsibility and proximity. We take important ecological, social and economic issues into consideration as part of our commitment to sustainability.

Pfandbriefe are sustainable instruments by their very nature. They were developed in order to solve economic problems and the associated social problems. They are geared towards longevity, stability and security. Sustainability is therefore part of the DNA of Pfandbriefbank. Sustainability will also play a key role in how we operate in future. We can only fulfil our legal mandate if we work towards solutions which are effective in the long term and appropriate to the situation, and which support the general trend towards a more sustainable economy and society.

Our legal mandate therefore leads us to make a relevant contribution to sustainability. The law defines our scope for action but also sets narrow limits. Pfandbriefbank is not free in its choice of business areas or in how its products are structured. It cannot determine the mortgage strategy of the banks or the renovation strategy of property owners.

Pfandbriefbank sees itself as an enabler for the important social step towards greater environmental sustainability in the real estate sector. As such, it is part of a large ecosystem along with investors (as capital providers), member banks (as advisors and mortgage lenders), construction companies (as implementers of construction and renovation work) and legislators (as creators of the regulatory framework). While banks, construction companies and legislators create the regulatory framework, the property owner is ultimately the sole decision maker.

The job of Pfandbriefbank is to facilitate the raising of capital for the long and costly process of transforming the Swiss building stock towards becoming more environmentally friendly. We expect the following change in this context: new buildings and replacement buildings will become highly energy-efficient due to modern building regulations, and their share of the portfolio will steadily increase starting from a low level. The renovation of old buildings may be the key element. In comparison to new constructions, large savings in terms of energy efficiency can be realised at lower cost by renovating old buildings, even if it is rarely possible to achieve the same level of energy efficiency as a new building. Geographical or building-specific restrictions often act as an impediment to renovating old buildings, along with planning permission issues and preservation/environmental protection orders. Another important element in this is the speed of the transformation. Even if the property owners are entirely willing to carry out renovation work, there is only a limited capacity available in the construction industry as well as limited capacity on the part of the producers and installers of energy-efficient systems. As a result, it will not be possible to renovate a large (albeit declining) share of the building stock for a number of years to come. However, this share still needs to be funded until further notice – for social reasons alone – and thus forms part of our legal refinancing mandate.

On 12 January 2021, the Federal Council officially pledged its support to the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD was established in late 2015 by the Financial Stability Board (FSB), of which Switzerland is also a member, in order to make recommendations on the financial transparency of companies with regard to climate risks. Their recommendations form a common international framework, which enables both the companies and the players in the financial industry to correctly assess their exposure to climate risks, as well as to quantify them so that they can implement the necessary strategies as part of their business activities. In a broader sense, it's a question of making markets more efficient and ensuring that economies are better prepared to deal with climate change and climate risks. The Federal Council hereby invites Swiss companies from all sectors of the economy to begin voluntarily implementing these recommendations.

In view of the support given to the TCFD by the Federal Council, it is also an objective of Pfandbriefbank to endorse the TCFD. We see ourselves as "a warning voice, tracker and observer" in order to make member banks aware of the ESG-related challenges. We intend to base our future sustainability reports on the TCFD regulations. On the product side, the CO₂ emissions of the properties pledged in the cover pool have already been calculated and reported in our publication "Pfandbriefbank Pool" (www.pfandbriefbank.ch). This could serve as the foundation for a more sustainable product development process. Changes in the sustainability strategies employed by investors and the other issuers are pursued further, in order not only to better understand the requirements, but also to incorporate them into our sustainability efforts.

In connection with our support for the TCFD, it is also important for us to integrate and define the necessary risks associated with sustainability; we are determined to continue on this path in the future.

Source: https://www.efd.admin.ch/efd/en/home/the-fdf/nsb-news_list.msg-id-81924.html

Fig. 3: Our vision of sustainability in the context of the TCFD

We achieve our economic objectives through thinking in the long term and acting responsibly. We take on social and environmental responsibilities by playing an active role in society and being careful with our use of natural resources. We are committed to ensuring that our company and our employees set a good example. To achieve this ambition, Pfandbriefbank has also implemented an extensive, corporate environmental management system. For example, it was our aim to become CO₂ neutral, which we achieved for the first time in the financial year of 2020 (see Chapter 5 for more information). We moved one step closer to achieving our additional goal of reducing energy consumption through an extensive project to improve the energy efficiency of our offices in 2021.

3 Corporate Governance

3.1 CSR governance and strategy

The topic of Corporate Social Responsibility (CSR) is highly important to Pfandbriefbank, and – as outlined in this report – various measures have been taken in the areas of corporate social responsibility and environmental protection, in which social and ethical aspects are evident throughout.

A modern Corporate Governance system, which is rigorously tailored to the business model as well as to the leadership structure and culture, is essential to ensure that these measures are implemented correctly. CSR is a challenging strategy, which pursues multiple objectives at the same time. A clear legal mandate exists to implement this strategy in a way that covers costs, and meets the highest standards and offers maximum efficiency for the member banks. This is achieved by behaving in a socially responsible way towards society and especially towards employees, and ultimately by operating in a way that is sustainable and environmentally friendly.

The Board of Directors, the Presidential Committee, the Cover Pool Committee, the Directorate, the auditors (in accordance with the articles of the bylaws and the organisational regulations) and the Swiss Financial Market Supervisory Authority (FINMA) are responsible for management and supervision regarding the formulation of the CSR approach. The issue of CSR is especially important to our Directorate in particular.

Pfandbriefbank takes the interests of shareholders and stakeholders into consideration when defining the management and supervision at the highest corporate level. In doing so, it is careful to achieve a balance between management, supervision and transparency. Decision-making abilities and efficiency should be maintained. We are continuously working

to improve the above mechanisms in order to ensure a constant level of honesty, integrity and responsibility towards both ourselves and our member banks as shareholders and clients, as well as towards society and the environment.

Board of Directors

The Board of Directors is responsible for the overall direction and management of Pfandbriefbank. Pfandbriefbank is a joint undertaking between member banks. Accordingly, the Board of Directors is primarily made up of representatives from the member banks. A representative of mortgage debtors appointed by the Federal Council also sits on the Board.

The Board of Directors has defined two committees: The Presidential Committee is made up of the President and the Vice-President of the Board of Directors and is led by the President of the Board of Directors. Its tasks include pursuing and monitoring the Corporate Governance and it is responsible for implementing the strategy adopted by the Board of Directors as well as the business activities of the Directorate, in accordance with Art. 15 of the Organisational Regulations.

The Cover Pool Committee takes care of all issues of interest to the Board of Directors regarding the cover pool, which is a key issue for Pfandbriefbank. The Cover Pool Committee is made up of two members of the Board of Directors who are familiar with the mortgage business. Its responsibilities include carrying out examinations in connection with cover assets.

Due to the transparency and simplicity of Pfandbriefbank's business model, the Board of Directors has not defined any other committees but instead takes accountability of all other issues within the Board of Directors as a whole.

Directorate

Alongside other tasks, the Directorate is responsible for implementing the resolutions passed by the Board of Directors and its committees as well as procurement for all other activities necessary to ensure ongoing operations.

The Board of Directors is responsible for the strategic and sustainable orientation of Pfandbriefbank as part of its legal mandate. The Directorate or the Managing Director (along with their employees) is responsible for the actual implementation of the relevant policies.

3.2 Guiding principles

Pfandbriefbank is designed for security, stability and sustainable business practices. Part of this focus has always included the sustainable use of resources. Pfandbriefbank strives to be a modern and attractive employer upon which its employees can depend. This is why it defines free interaction with one another in its guiding principles and lists a series of core values:

- Respect for one another,
- Promotion and recognition of performance,
- Commitment to all-round quality and professionalism,
- Reliability as an employer and partner, and
- Fostering of open communication.

Pfandbriefbank is committed to strict compliance with legal, supervisory and internal guidelines in everything it does. We are convinced that long-term economic success goes hand in hand with a healthy, natural environment and a stable society. In view of the challenging problems facing humanity – from climate crisis and resource scarcity to a stable financial and economic system – Pfandbriefbank recognises its responsibility to contribute towards a stable environment and economy. In particular, social and environmental dimensions of sustainability arise from the scope of our legal mandate. Providing sufficient capital makes

possible a well-functioning and stable housing market with adequate affordable housing. Likewise, an adequate supply of capital is necessary for the long and costly transformation process, which is currently ongoing, to improve the energy efficiency of the Swiss housing stock. The Swiss Pfandbrief system also has a stabilising effect on the domestic banking sector and the capital market. With this in mind, we assume responsibility not only as the provider of our services, but also as an employer and as part of society.

3.3 Compliance

Good corporate management requires compliance with legal and prudential regulations. It forms the basis for a responsible approach to dealing with risk. These guidelines are key for us and form the foundation of our business.

The PfG of 1930 forms the cornerstone of all business carried out by Pfandbriefbank. It stipulates that "authorisation from the Federal Council is necessary in order to exercise the right to issue Pfandbriefe" (Art. 2 PfG). The law also regulates the coverage of Pfandbriefe and loans (Section III), including the coverage of loans to members (Section III, II PfG). The responsible bodies must certify that the statutory minimum coverage is available for hedging purposes before Pfandbriefe are issued (Art. 9 PfG). Furthermore, the reporting requirements state that the audit companies of the members of Pfandbrief institutions are to audit "the cover pool and the coverage of loans as part of the annual audit" and "create a report about these audits for Pfandbrief institutions and the audit companies employed by them" (Art. 38b PfG).

In regards to the audit, Pfandbriefbank is obliged by law (Art. 38a PfG) to commission one of the auditors authorised by the Federal Audit Oversight Authority (Para. 1). Furthermore, it must have its annual reports audited "by an auditing company that is subject to public supervision according to the auditing principles of the Swiss Code of Obligations" (Para. 2).

In general, the compliance structure of Pfandbriefbank ensures that the aforementioned statutory, regulatory and other (internal) requirements are complied with. This supports members and investors in equal measure. Furthermore, Pfandbriefbank can prevent reputational damage due to its compliance structure.

Pfandbriefbank is committed to respectful dialogue, openness and responsible behaviour, both within the company and in its dealings with investors, member banks and other stakeholders. This is intended to create an environment of trust where any shortcomings can be aired and corrected at the first opportunity.

Binding guidelines and instructions for processing business activities have been enacted, which have been audited for compliance by an Internal Control System (ICS).

At Pfandbriefbank, the Managing Director also holds the roles of Compliance Officer and Communication Officer.

Our clients, our investors and other third parties can direct complaints to us at any time by telephone, by e-mail or in person. Any objections relating to these issues are handled by the Directorate.

There were no legal or regulatory violations in the year under review.

4 Social affairs and employees

Pfandbriefbank is designed with security, stability and durability in mind – and its work makes a major contribution towards ensuring financial stability in Switzerland. As well as our social obligations, we are conscious of our responsibilities towards our employees. A motivated and highly trained workforce, which works together as a team, is our most important resource. We are respectful and fair in our dealings with our employees, suppliers and clients as well as other stakeholders, since we are convinced that this pays off in the long run for everybody concerned.

Within the context of its operational requirements, we promote equal opportunities and expressly distance ourselves from discrimination on grounds of gender, age, nationality, religion and sexual orientation.³

The Swiss banking industry has had a well-maintained and properly functioning social partnership between employers and employees since as long ago as 1920 (!). Together, with the "Agreement on Terms of Employment for Bank Employees" (VAB), they form one of the oldest collective labour agreements in Switzerland.⁴ Although Pfandbriefbank is not an actual bank as such, it is a voluntary member of "Arbeitgeber Banken", the employers' association for banks in Switzerland. As a result of this, the employees of Pfandbriefbank are subject to the VAB and benefit from generous regulations. In addition, as a sign of our social responsibility and our ties to the local area, we are a small and mostly anonymous yet proud supporter of institutions and activities of educational and cultural value, such as Zurich Zoo or Ballenberg open-air museum.

4.1 Corporate/management culture and employees

For Pfandbriefbank, the skills and knowledge as well as the commitment and motivation of its employees form the basis of its success. Progressive and attractive working conditions are therefore an integral part of this, and make a significant contribution towards the well-being and thus the motivation of the workforce.

The team of Pfandbriefbank is small and manageable. Pfandbriefbank has only one office, where nine people are employed with a full-time equivalent of 7.6 FTEs. The Directorate is made up of two people and there are seven members of staff.

As a small business, we are focused on stability, longevity and security in our role as employer. Proof that Pfandbriefbank's workforce is content can be seen in the low staff turnover and their long-standing service. The average length of service is more than ten years. More than half of employees have been working at Pfandbriefbank for 12 years or more. As far as we are concerned, this is an indication of the quality and stability of the jobs and working conditions we offer.

Making sure that employees have a good work-life balance is important to Pfandbriefbank's management. Especially during changes in living circumstances (e.g. starting a family), Pfandbriefbank team has been able to find solutions that are acceptable to all parties, for example through part-time working, and as a result has been able to retain long-serving members of staff. It is also easy for employees to adjust their working hours to suit their personal requirements. We grant sabbaticals as special leave or extend the legally mandated parental leave when requested by employees. Our internal deputy system also makes returning to work with a reduced workload easier.

³ Art. 1a of the VAB Agreement.

⁴ Further information on the social partnership in the Swiss banking industry and on the VAB as well as its history can be found at: www.arbeitgeber-banken.ch/dienstleistungen/sozialpartnerschaft.

Unlike companies with a large workforce and constant staff turnover, our small number of employees and the fact that our employees stay with the company for a long time does not allow any statistically significant conclusions to be drawn with regard to our HR policies. Random and singular events have a significant and long-lasting impact on changes in staffing levels. It is important for the principles of equal opportunity to be taken into consideration in every personnel decision: gender, origin, age, sexual orientation etc. play no part. The only things that count are the personal and professional skills of the applicants.

Due to the small size of the team, the ability to work together closely is extremely important. The entire team works hand in hand and its members are therefore in constant contact with one another, which is why direct, in-person interaction in our offices is also important to us. Decision-making paths are hierarchical and in places short, and management's door is always open to employees with concerns or suggestions. The management style is participative. Being proactive and assuming responsibility is not just permitted, but encouraged. Employees are listened to wherever possible and their opinions are taken into consideration when decisions are made.

Furthermore, we attach great importance to good team spirit, which we encourage through joint activities and experiences (business trips, meals together, etc.). In keeping with this team-based philosophy, there are also no competing performance targets at Pfandbriefbank; instead, the main objective is to support Pfandbriefbank as a whole – which means that working as a team is essential.

The low staff turnover due to employees remaining at the company for long periods of time helps to create an informal work culture and a trust-based working environment. The day-to-day work is characterised by the flat hierarchy and a culture of open communication. In addition to direct contact, the regular – usually weekly – team meetings also provide opportunities to bring up any issues openly and directly. If any major differences in opinion should emerge, employees can directly approach members of the Board of Directors, who are personally known to the staff.

As a small business, we do not have our own academy with training opportunities. However, since a mutual understanding of processes and activities is particularly important in a small team, we constantly enable our employees to get involved in other departments as a part of their work at Pfandbriefbank or to take on new areas of activity (job enrichment and job enlargement). We work together with our large member banks to provide additional training opportunities depending on the situation, so that our employees, as guests, can make the most of the bank's internal training opportunities depending on the course topic. Furthermore, independent third parties provide a wide range of banking-related courses and more general training opportunities. Pfandbriefbank supports employees, and contributes financially and/or allows employees to take part in vocational training during working hours. We also allow them to reduce their workload for the duration of their training on request.

A modern employer offers its staff the option of flexible working and working from home. This gives employees the ability not just to organise their working time flexibly but also to reduce their time spent commuting, which in turn has a significantly positive impact on the environment. The option of working from home was widely used in 2021 – particularly as a result of the COVID-19 pandemic. Out of 1,637 days worked by all employees, 1,048 were worked at home. This corresponds to 64 %.⁵

⁵ Data collected internally.

4.2 Compensation and benefits

In order to support the development of our employees and ensure their wellbeing, we employ certain measures with the aim of creating a working environment characterised by respect and openness.

In keeping with our security-oriented company culture, we also take our duty of care towards one another seriously. Alongside competitive market-based and performance-focused pay, generous social security provisions have always been important to Pfandbriefbank. It is also important to us for all employees to be able to benefit from the same (generous) insurance and pension solutions and for no distinction to be made based on an employee's position in the hierarchy. This principle also applies for additional benefits such as Reka checks and lunch checks or travel expenses. Likewise, all employees are treated equally with regard to variable compensation components. Bonuses, which are common elsewhere in the banking industry, were abolished at the end of 2019 for all employees – from all staff up to the Managing Director.

Protecting its employees has always been a matter of priority for Pfandbriefbank. All employees benefit from the same generous insurance and pension fund solutions. These comprehensively cover the financial risks relating to invalidity and death as a result of accident or illness as well as old age, and at a level significantly above the statutory minimum. As an employer, Pfandbriefbank has always voluntarily paid the total premiums for the obligatory and voluntary accident insurance (occupational and non-occupational accident) schemes.

Pfandbriefbank's professional pension solution also emphasises its active responsibility towards its employees and their relatives. Even as long ago as 1933, i.e., shortly after Pfandbriefbank was founded and almost 50 years before the introduction of the statutory minimum, Pfandbriefbank joined what is now Bafidia Pensionskasse Genossenschaft (then known as Pensionskasse schweizerischer Regionalbanken) and insured its employees. The Bafidia Pensionkasse was founded by different regional banks and savings banks in 1926 as a self-help organisation. As a cooperative, which is now an unusual legal form for a pension fund, Bafidia functions on a democratic basis. All associated members must choose one employer representative and one employee representative, which gives them a direct say at the Assembly of Delegates, where the Management Board (governing body) is chosen and changes to the fund regulations are decided upon. Important decisions therefore always require agreement from both employers and employees. This principle of joint consent also applies to Pfandbriefbank's pension plan. Our plan is modern and also opens up individual options for insured persons within the framework of the pension fund's legal and regulatory requirements. Pfandbriefbank has always paid a higher share in contributions than the 50 % stipulated by law.

As a small business, Pfandbriefbank does not have its own canteen but still contributes towards employees' meal costs with a monthly payment in the form of "lunch check" vouchers.⁶

4.3 Occupational health and safety

The health and safety of our workforce are a major priority for Pfandbriefbank. Our offices are in an ideal location immediately next to the Zurich Oerlikon railway station. In addition to outstanding public transport links, the location also offers a number of shops and restaurants in the vicinity. If employees need to travel to work by car on occasion, adequate company parking spaces are available free of charge in the underground car park.

The office is spacious and well lit and plants, pictures and plenty of daylight create a pleasant atmosphere. Each employee has their own personal workspace (often in individual of-

⁶ See also www.lunch-check.ch.

fices) in close proximity to windows, which can be opened to provide ventilation. We provide coffee, tea and cold drinks to our employees free of charge. To promote employee health, all workspaces have height-adjustable desks and the option of alternating between standing up and sitting down to work, which is also often used. All new technical equipment purchased is state of the art, and we also take health-related and environmental aspects into consideration.

Our membership of Arbeitgeber Banken as mentioned above means that the employees of Pfandbriefbank are subject to the two social partnership frameworks "Agreement on Terms of Employment for Bank Employees" (VAB) and "Agreement on the Recording of Working Time" (VAZ).⁷ Both frameworks also cover the topic of health and safety.

To ensure standard working hours, care is taken to ensure that a working week of 42 hours (at 100 %) is not exceeded wherever possible. All employees receive the industry-standard five weeks of paid holiday per year. Pfandbriefbank offers six weeks of paid holiday to employees above the age of 50 and seven weeks to employees above age 60. Pfandbriefbank also makes a small contribution to the leisure and holiday activities of its employees through the subsidised issue of Reka checks.⁸

Various health and safety measures were taken in response to the COVID-19 pandemic. At an early stage, staff were given the option of working from home voluntarily to protect themselves or their family members. With the threat level increasing due to the virus and the corresponding recommendations from the authorities – which later became legal requirements – the workforce was divided into two separate teams, which worked in the office on an alternating basis and in some cases in even smaller teams.

Statutory protective measures applied on the way to work and in the office. Particularly in the office, we benefited from the extra space resulting from the reduced number of employees. As a result, we did not record one single case of infection at the workplace.

5 Environment and operation – targets and metrics

As a complex and multifaceted issue, sustainability – economic, political and societal – has attracted widespread attention for some time, and its significance has rapidly gained momentum in recent years. As well as sustainability in our business activities, energy consumption, CO₂ emissions and resource efficiency within the company also play a significant role in this.

Pfandbriefbank is aware that in the future it will remain necessary to adjust to changing political and societal conditions with regard to sustainability and to react accordingly. The requirements will continue to evolve and we will have to adjust to them. To ensure that we can continue to operate our business in a stable manner over the long term, we fulfil our legal mandate sustainably and in a resource-saving way.

As a strategic goal with regard to sustainability, Pfandbriefbank is focussing on constantly reducing its own ecological footprint. This is why, a number of years ago, we began consistently implementing a number of smaller and larger measures in all areas of day-to-day business operations. As part of this, we have focused on long-term, and where possible local, supplier relationships as a basic principle. Accordingly, we also play an active role in the working groups and committees of the Swiss Bankers Association (SBVg) on the subject of energy-efficient mortgages. We are convinced that this important topic requires engagement and commitment from all actors in society to have a chance at success.

⁷ For more information about Arbeitgeber Banken as well as VAB and VAZ go to www.arbeitgeber-banken.ch.

⁸ See also www.reka.ch.

Sustainable operating activities are key for Pfandbriefbank. This is why it has set itself the goal of using natural resources responsibly and carefully, and strives to minimise its use of energy and raw materials. This takes into account the environmental impact and material consumption in the offices, the consumption of district heating and the mobility of employees, as well as electricity and water consumption. In the case of replacement purchases or new purchases, longevity and energy-efficiency for the purposes of environmental sustainability are taken into account as key issues. We look out for long usage cycles for furnishings as well as technical equipment, and always try to have things repaired if faults occur. Besides minimising our consumption of energy and consumables, we consistently use environmentally-friendly forms of energy (green electricity, district heating) and recycle materials that can be reused.

Through this holistic and broad approach, Pfandbriefbank is playing its part in protecting the climate and preventing environmental pollution by safeguarding resources.

5.1 CO₂ emissions

Pfandbriefbank has set itself the goal of becoming CO₂ neutral. On this basis, since 2020 the carbon footprint (expressed as CO₂-e) has been calculated in cooperation with myclimate foundation as part of a greenhouse gas balance sheet. In the financial year 2021 it was 13 t CO₂-e (see the info box to find out precisely how this figure was calculated).

Investments in myclimate climate protection projects in Switzerland offset the emissions in their entirety for the purposes of carbon neutrality. It is planned to carry on calculating and offsetting the carbon footprint in the future. By offsetting, Pfandbriefbank wishes to do more than merely supporting sound projects; it also intends to express that it is serious about its intentions to minimise CO₂ emissions.

Carbon Footprint Jahr 2021 Pfandbriefbank schweizerischer Hypothekarinstitute AG

31.05.2022

This report summarizes Pfandbriefbank schweizerischer Hypothekarinstitute AG's carbon footprint for the year Jahr 2021. The carbon footprint is based on the internationally recognised standard 'The GHG Protocol: A Corporate Accounting and Reporting Standard' and includes the climate-relevant greenhouse gases that are under the 'operational control' of the company. The data for the calculations is taken from ecoinvent 2.2 and the IPCC 2007 methodology (GWP 100a). Table 1 summarises the greenhouse gas emissions of the different categories. With 58%, the category Heating and Cooling contributes the most to the total carbon footprint of 13 tonnes.

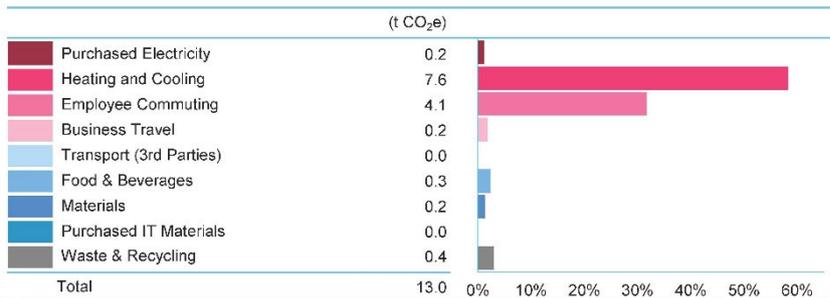


Table 1: Greenhouse gas emissions broken down by categories.

Greenhouse gas emissions are assigned to the three scopes below. A distinction is made between where the emissions occur - at the company itself or in upstream or downstream processes for manufacturing and transporting goods:

Scope 1: includes all direct emissions from owned or controlled sources, such as business travels in company cars or the combustion of fuels in heating systems.

Scope 2: includes all indirect emissions from the production of purchased energy consumed by the company, for example from the burning of coal to produce electricity. If, for example, renewable energies are used to produce electricity, no emissions are reported here.

Scope 3: includes all other indirect emissions resulting from the production of raw materials, products or services used by the company and from business travels in vehicles not owned by the company.

Last year, scope 1, 2 and 3 accounted for 1%, 44% and 56% respectively of total greenhouse gas emissions (Table 2).

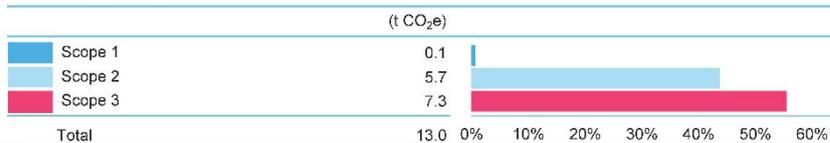


Table 2: Greenhouse gas emissions divided into three scopes according to the GHG Protocol Standard.

Fig. 4: The greenhouse gas balance sheet of Pfandbriefbank in 2021.

5.2 Renovation of its own building

The offices of Pfandbriefbank were renovated and refurbished in the second half of 2021, with the "energy saving refurbishments" – within the bounds of planning regulations and structural possibilities – playing a key part. The construction work was divided into two stages in order to be able to maintain minimum office operations throughout the whole of the renovation process.

The comprehensive and large-scale renovation and refurbishment work included the fitting of new, high-quality windows, the thermal insulation of the façade area and replacement of the old, inefficient radiators and air conditioning and kitchen appliances. The maximum possible energy efficiency is always borne in mind when making replacements or new purchases. The lighting was consistently converted to LED.

5.3 Environmental management and key figures

As part of its environmental management activities Pfandbriefbank has systematically recorded its key figures on the consumption of water, electricity and district heating since 2020. This facilitates comparison between years, which is necessary as part of the operational objectives to minimise consumption. Unfortunately, due to the aged fittings in the building (with construction dating back to the 1970s and the building being owned on a condominium basis with Pfandbriefbank only holding a 3.9 % stake), not all key figures can yet be determined individually for Pfandbriefbank. The renovation of the part of the building containing our offices will have a significant and long-lasting effect in terms of reducing our offices' energy consumption, and is thus a key part of our operational efficiency strategy.

Attention is paid to sustainable production in the purchase of consumables. We use ecologically certified paper when paper usage cannot be avoided. For a number of years now, we have successfully worked towards reducing our paper consumption and using digital options as an alternative. As a result of this, we now use around a quarter the amount of paper than ten years ago. This figure does not yet include the various reports produced by the member banks, which are now delivered to us in electronic form instead of hard copies. Our employees now also use black and white as the default when printing and only switch to using colour ink when necessary.

Furthermore, all unavoidable waste is separated and reusable materials are taken to the relevant collecting point. This includes paper and cardboard, PET bottles, glass, batteries, metals and coffee pads.

Furthermore, we put a lot of emphasis on making sure our employees are aware of the importance of reducing their resource consumption. For example, lights should only be switched on where necessary and screens should be switched off in the evenings instead of continuing to use electricity in standby mode.

Electricity and water consumption of the offices⁹

Total electricity consumption of Pfandbriefbank's offices in 2021 amounted to 5,822 kWh. Electricity from ewz¹⁰ here refers to "ewz.natur" electricity: natural power from water, sun and wind. This is 100 % produced at ewz's own production facilities in Switzerland and across Europe.

Water consumption in 2021 as calculated by us (using a payment key) was 73.2 m³. Water flows are reduced to a standard 70 % through a special, water-efficient tap in our kitchen

⁹ Data collected internally, based on ewz data among other sources.

¹⁰ ewz is the Zurich Electrical Company, see www.ewz.ch.

and flow restrictors in the floor toilets, which has a significant impact in terms of saving water.

Our heating system is based on district heating, which is known to be an efficient and environmentally friendly method of heating and obtaining hot water. We calculated our consumption (using a payment key) for 2021 at 28.3 MWh.

Type	Electricity consumption
Electricity consumption	11,133 kWh
of which electricity in the office	5,822 kWh
Water consumption	73.2 m ³
District heating consumption	28.3 MWh

Fig. 5: Consumption of energy, water and district heating in the offices for the year 2021. Data collected internally.

Mobility and commuting¹¹

Mobility, whether through commuting or business travel, is an important variable when it comes to calculating CO₂ emissions, with the (exact) impact depending to a significant extent on the means of transport. Our aim is to continuously minimise the environmental impact caused by employee mobility. We believe that trips should only be made where necessary and appropriate, and where possible they should be made using public transport. By incorporating mobility into our greenhouse gas balance sheet and offsetting it, we are also creating incentives for ourselves to act in an environmentally friendly way.

We encourage our employees to choose public transport over driving when commuting to and from work, and subsidise the former with Reka checks. As a general rule, the majority of employees travel to work using public transport or by bicycle. The data for 2020 and 2021 are less meaningful due to the COVID-19 pandemic. Even if because of official, operational and private protective measures (e.g. compulsory working from home, split office set-ups, use of private transport to avoid contact with large numbers of people on public transport) the total distance commuted may have been reduced, the proportion of the distance commuted using private transport has increased (in part already privately offset by employees).

The total distance commuted by all employees in 2021 was 24,500 km. Of these, 13,700 km were travelled using public transport and 10,800 km by employees using their own cars. This means that 55.9 % of the distance commuted was travelled using public transport. We aim to increase this percentage further. The commuting done by our employees is incorporated into Pfandbriefbank's greenhouse gas balance sheet and is offset.

Pfandbriefbank does not operate any company cars.

Means of transport	Distance in km	Proportion of distance in %
Public transport	13,700	55.9
Private transport (car)	10,800	44.1
Total	24,500	100

Fig. 6: Breakdown of employee distance commuted by public and private transport for the year 2021. Data collected internally.

When it comes to business travel, we also try to make sure it is as environmentally friendly as possible and use public transport wherever we can, or try to reduce the distance driven through intelligent route planning. Once again, the data for 2020 and 2021 are not typical due to the COVID-19 pandemic (for example due to restrictions on travelling abroad or the overall cancellation of in-person meetings).

¹¹ Data collected internally.

The total distance travelled by our employees on business trips in 2021 was 765 km, which was split between three members of staff. 64.3 % of these business trips were made using public transport. All business trips carried out by our employees are incorporated into Pfandbriefbank's greenhouse gas balance sheet and are offset.

Means of transport	Distance in km	Proportion of distance in %
Public transport	492	64.3
Private transport (car)	273	35.7
Total	765	100

Fig. 7: Breakdown of employee business travel by public and private transport for the year 2021. Data collected internally.

6 Legal notice

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Exclusion of liability

This report was published by Pfandbriefbank to the best of its knowledge and in good conscience. The data collected internally and externally for this purpose have been carefully reviewed; however, Pfandbriefbank does not assume liability for any errors.

Furthermore, this sustainability report contains forward-looking statements, which are based on current plans, targets and intentions. Pfandbriefbank does not assume any liability or make any guarantee that any statements will prove correct in the future, since any developments depend on external factors that are outside the control of the Directorate or the Board of Directors.

The German-language version shall take precedence in cases of uncertainty.

Reporting period

Financial year 2021 (1 January to 31 December)

Reporting cycle

The sustainability report is set to be published on an annual basis, this being the first edition.