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Sustainability Report 2022

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List of abbreviations

Abbreviation	Description
AG	Aktiengesellschaft (stock corporation)
Art.	Article
ASAP	Automated Security Awareness Program
CHF	Swiss franc
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
e.g.	for example
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
GHG Protocol	Greenhouse Gas Protocol (regarding greenhouse gas emissions)
ICS	internal control system
incl.	including
km	kilometres
kWh	kilowatt hours
m ³	cubic metres
MWh	megawatt hours
para.	paragraph
PET	polyethylene terephthalate
PfG	Pfandbriefgesetz (Pfandbrief Act)
PfV	Pfandbriefverordnung (Pfandbrief Ordinance)
RBI	Responsible Business Initiative
SBVg	Swiss Bankers Association
SDGs	Sustainable Development Goals
SNB	Swiss National Bank
t	tonnes
TCFD	Task Force on Climate-related Financial Disclosures
VAB	Agreement on Conditions of Employment for Bank Staff
VAZ	Agreement on the Recording of Working Time

1 Introduction and overview

1.1 Greeting

Dear Stakeholders,

The concept of sustainability is important to us. For us, being sustainable means thinking long-term and acting reasonably.

Sustainability is the defining topic of our time. The effects of climate change are already evident, and it is our collective duty to take action for both the present society and the well-being of generations to come. Even if it is often hard to reconcile aspiration with feasibility, a "wait-and-see" approach is not practical – failing to align with the needs of both political dynamics and economic realities. We will only succeed in shaping a sustainable future if we act together, quickly, and purposefully.

Not just the economy as a whole but rather each individual company must be responsible for playing its part. As Pfandbriefbank, we strive to meet society's demand for more environmentally and socially responsible business within the framework of our statutory mandate under the Pfandbrief Act. We want to and should concentrate on this mandate and also fulfil it responsibly.

This requirement 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. We are creating a necessary foundation for such transition. This transformation is a long-term process with many dependencies. The decision to carry out a more sustainable construction or renovation is made by the property owner. Politicians put suitable framework conditions in place, e.g., incentives or prohibitions, as well as building guidelines and procedural requirements. However, limited capacity in the construction industry may prevent rapid progress by acting like 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

M. Razavi
Vice Director

1.2 About the report (classification, reasoning, approach)

A sustainable and respectful treatment of people and resources are key priorities for 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 working with dedication to implement sustainable solutions in different areas. We are proud of what we have already achieved and that, with the Swiss Pfandbrief®, we are able to offer what we consider to be a fundamentally sustainable product. At the same time, we are aware that the path to sustainability is constant and ongoing, and we are continuously striving to pursue the path we have chosen.

We therefore want to use this report to disclose the impact of our business on environmental, social and employee matters, our contribution towards the Sustainable Development Goals (SDGs), and internal measures taken to protect our employees and the environment. We are also disclosing our company's sustainability vision and highlighting which international sustainability standard should support us in the future.

We are striving to comply as much as possible with the latest Swiss regulatory developments. Due to the size of Pfandbriefbank, we are not subjected to any legal obligations regarding non-financial reporting. However, we are striving to voluntarily comply with the Swiss legal requirements.

The indirect counterproposal to the Responsible Business Initiative (RBI-CP) entered into force on the 1st of January 2022. The counterproposal lists several reporting requirements on non-financial matters such as environmental and social issues as well as due diligence requirements in the areas of conflict minerals and child labour. Even though Pfandbriefbank does not fall within the scope of this regulation, we aim to voluntarily comply with its environmental, social and governance requirements and we regard them as guidelines for this report.

Key figures mentioned in this report are extracted from our 2022 Annual Report. Pfandbriefbank has no group structure and no subsidiaries. Its mandate is governed by the Pfandbrief Act (SR 211.423.4) and the Pfandbrief Ordinance (SR 211.423.41). In this context, it should be noted that Pfandbriefbank is not a bank under the Banking Act but a Pfandbrief central office under the Pfandbrief Act.

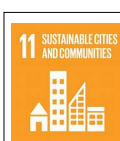
Pfandbriefbank's greenhouse gas emissions have been calculated in accordance with the internationally recognised "GHG Protocol: A Corporate Accounting and Reporting Standard". Myclimate, an independent Swiss foundation, has carried out all calculations and reporting of Pfandbriefbank's greenhouse gas balance sheet, covering Scopes 1, 2 and 3, based on detailed information provided by Pfandbriefbank.

The reasons behind Pfandbriefbank's limited scope of action and responsibility regarding the cover pool are explained in Appendix I – Exclusion policy.

1.3 Our contribution towards achieving the SDGs

We consider the SDGs as a guiding principle for our business activities. The SDGs aim to ensure sustainable development at an environmental, 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 statutory mandate and with the efforts of the Federal Council, following its national and international commitment to achieving the goals of the 2030 Agenda of the SDGs.

In particular, we are focusing on contributing positively towards Goal 11.



"Making cities and communities 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 and affordable housing. We are thereby contributing towards the social dimension of sustainability in the sense of SDG 11 – in particular sub-item 11.1, which highlights "adequate, safe and affordable housing".

Furthermore, the Swiss Pfandbrief® is a central pillar for the upcoming process of transforming Switzerland's housing stock towards greater environmental sustainability. The renovation of the housing stock represents a core factor 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, housing stock that has not yet been refurbished still needs to be financed. Although it is the property owner who decides whether to invest, the Swiss Pfandbrief® is becoming a relevant "enabler" for the necessary transformation process – because it provides an important, reliable, long-term, and affordable source of refinancing for the mortgage market. After all, the financial viability of a project is an essential requirement. The same considerations apply when it comes to financing sustainable energy solutions on buildings (e.g., solar panels or photovoltaic systems). We are also making a major contribution towards the environmental dimension of sustainability within the meaning of SDG 11 by ensuring that the energy solutions are financially viable.

The Pfandbrief system in Switzerland also ensures efficient access to the capital market for all banks. For small and medium-sized institutions that 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 made of large and small regional banks that are focused on the national market. The Swiss Pfandbrief system is also an important pillar for the functioning of the Swiss capital market, and it has proven in the past to be especially crisis-resistant and stable. The Swiss Pfandbrief® thereby contributes as a stabilising factor to maintaining Switzerland's position as a functioning and resilient centre for banking and finance and contributes therefore indirectly to its social and economic stability.

2 About us

2.1 The history of the Pfandbrief and the Swiss 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 system. It entered into force on 1 February 1931, three years before the Swiss Banking Act. It was introduced in response to recurring problems in the mortgage credit business – such as the credit shortage and strong interest rate fluctuations – and associated undesirable economic and social impacts.

The PfG enabled the establishment of Pfandbriefbank schweizerischer Hypothekarinstitute AG, which is generally known as the "Pfandbriefbank". Only Pfandbriefbank and the Pfandbriefzentrale der schweizerischen Kantonalbanken AG are legally entitled (under Art. 1 para. 2 PfG) to issue Swiss Pfandbriefe®. They pass the proceeds on to their members to refinance their mortgage businesses. Although they are organised as stock corporations, both Pfandbrief institutions have so far operated as joint undertakings and central issuing offices for their member banks. Their business scope is definitively and narrowly defined by law (under Art. 5 PfG), and this allows Pfandbriefbank to conduct activities that are only directly associated with the Pfandbrief business.

The Swiss Pfandbriefbank is one of the most crisis-resistant institutions in Switzerland. Since the adoption of the PfG in 1931 it has never failed, despite several, and sometimes major financial and real estate crises. While other institutions in Switzerland have had to accept losses or even to stop their activities, 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

¹ Dewet Moser, SNB: "The silent saviour of the major banks – the Limmat Pfandbrief redirects excess liquidity in the financial sector to the major banks and saves Switzerland from issuing expensive state guarantees"; in Finanz und Wirtschaft, 17 September 2014, page 22.

2.2 Our company

The legal purpose of the Swiss Pfandbrief® business (under Art. 1 para. 1 PfG) is to provide property owners with long-term mortgage loans at the lowest and most constant interest rates possible. The right to issue Pfandbriefe is reserved (under Art. 1 para. 2 PfG) for two institutions, which perform this role within a narrow legal framework as central issuing offices for their member banks.

We issue Swiss Pfandbriefe® and use the proceeds to grant member banks mortgage loans against mortgage-backed collateral (registered liens) to refinance their mortgage lending business.

At that the end of 2022, Pfandbriefbank had 291 member banks (also shareholders), of which 288 member banks had drawn loans from Pfandbriefbank. The current share and loan distribution can be viewed on our website (www.pfandbriefbank.ch).

The organisation of the Pfandbrief institutes is derived from Art. 2 PfG. Pursuant to para. 1, the authorisation of the Federal Council is required in order to be able to issue Pfandbriefe in Switzerland. Para. 2 defines the requirements for their organisation: firstly, by means of a direct definition and, secondly, indirectly via approval of their bylaws and their valuation regulations, which must also be carried out by the Federal Council. Their bylaws include provisions on organisation, annual reports, and business activities. The organisation of Pfandbriefbank's governance bodies is regulated in the bylaws under section 3.

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

- our employees,
- member banks (which are both clients and owners),
- Pfandbrief investors,
- other business partners, such as service providers and suppliers, as well as
- society and environment.

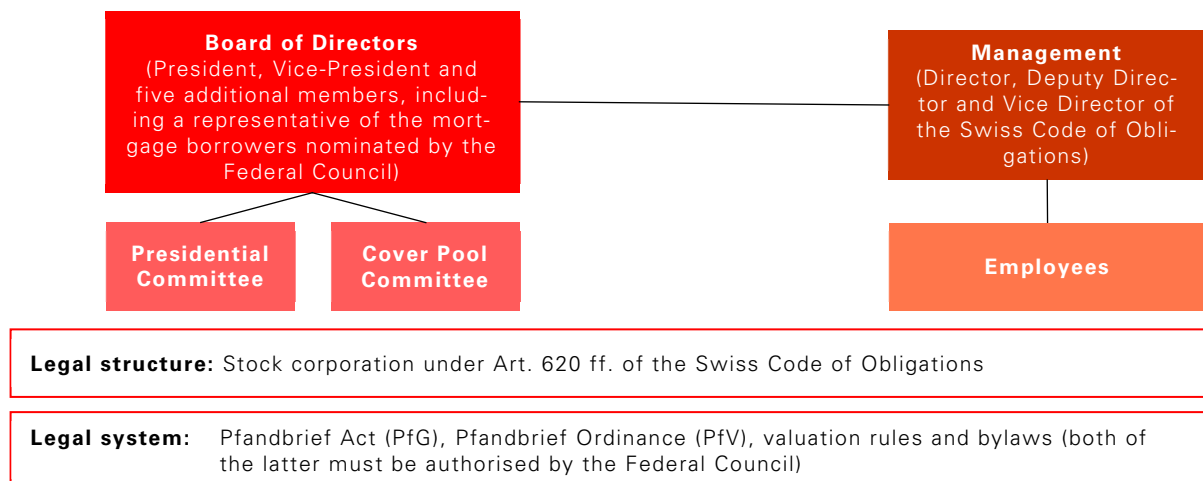


Figure 1: The current structure of Pfandbriefbank (own illustration).

The principle of sustainability is the guiding principle in carrying out this responsibility and is anchored in our statutory purpose article. 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 has the market been able to provide enough affordable housing and can continue to do so. Likewise, financial viability 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®, has therefore been a sustainable instrument for over 90 years, with both a social and an environmental dimension of sustainability.

Our vision is to become 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 our 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.

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

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. The 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.

Apart from 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 in order to be able to 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 highest possible investment quality. Swiss Pfandbriefe® enjoy preferential regulatory treatment.

We strive to fulfil our legal mandate in a resource-saving and sustainable manner. In accordance 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 with a liquid secondary market.
- We want to develop and offer our products (Pfandbriefe/loans) and services to the highest standards, easily manageable, and – insofar 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 is up-to-date and consistent with our business model.
- We are a progressive and attractive employer, upon which they can depend, and which offers opportunities. Working well together 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 proceeds from the issue, including premiums and after deducting the direct issue costs, are passed on in full to the member banks. 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 not profit-oriented. This model offers member banks reliable and extremely efficient access to the capital market. All members benefit from economies of scale.

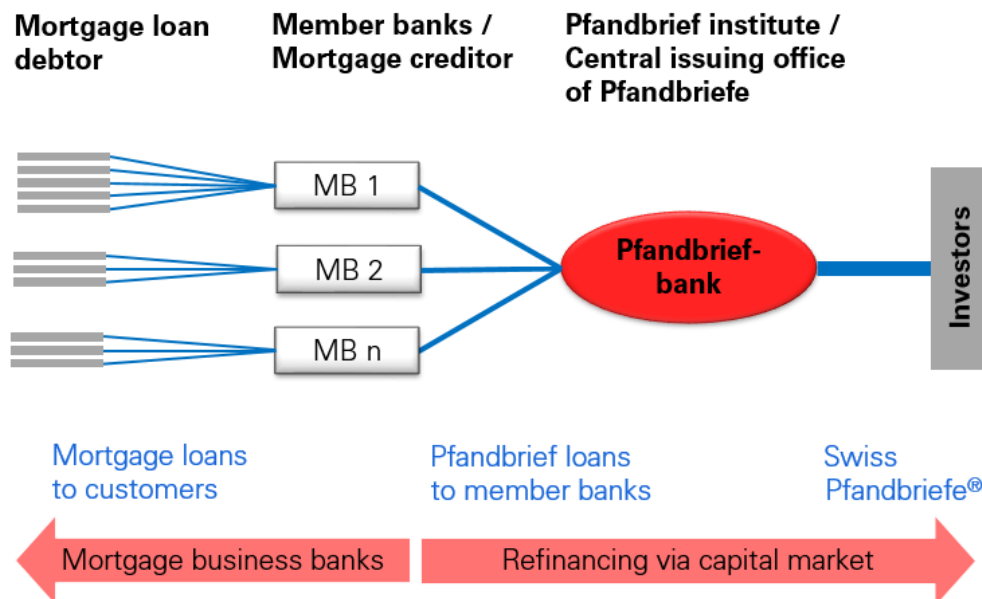


Figure 2: Basic structure of the Swiss Pfandbrief® system (own illustration).

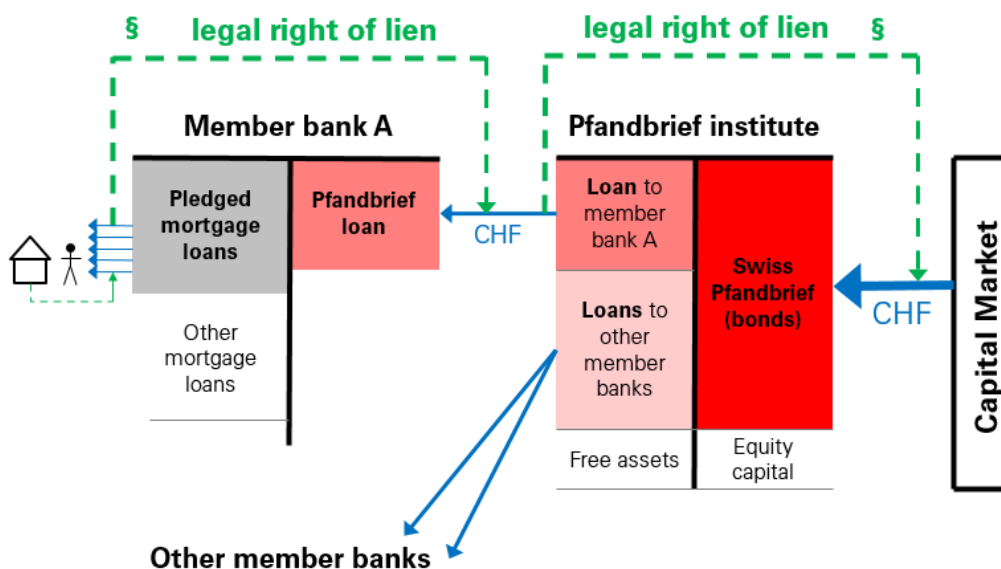


Figure 3: Pfandbriefbank business model (own illustration).

The Pfandbrief Act stipulates that only Swiss banks may become members of Pfandbriefbank (Art. 4 PfG)² and that refinancing only refers to the domestic mortgage lending business of member banks. Pfandbriefbank has no group structure and no subsidiaries. Its business segment is limited exclusively to Switzerland. Accordingly, high Swiss standards apply regarding aspects such as human rights, corruption, working conditions and the environment. Due to Pfandbriefbank's regulated legal framework, issues relating to international tax planning practices can also be ruled out.

The following sustainability aspects are already incorporated into our business model:

- We rely on long-term and domestic (preferably regional) supplier relationships that are subject to Swiss law.
- We focus on reducing our consumption of materials and promote recycling. We pay attention to sustainable production when purchasing consumables. We promote digital channels to reduce, for example, our paper consumption.
- We have a greenhouse gas balance sheet drawn up based on the "GHG Protocol" and support sustainable projects in the amount of the calculated CO₂ emissions. Ideally, we try to avoid or reduce emissions.
- We calculate the CO₂ emissions of the properties pledged in the cover pool and we actively participate in working groups.

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



Figure 4: The business areas of Pfandbriefbank (own graphic).

Issuance of Pfandbriefe

Investor and member banks' demand for Pfandbriefe must be optimally coordinated. Contacts with investors as well as analysts are important and help us to improve the Swiss Pfandbriefe®.

We strive to keep issuance and placement costs low while 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 sufficient 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 Pfandbriefe.

Investing the proceeds from the issuance of Pfandbriefe in loans

We want to satisfy the requirements of our members as much 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

²"[...] and more than 60% of whose assets consist (according to the last balance sheet prepared and published in accordance with the provisions of the Federal Council) of receivables that were acquired in the domestic mortgage credit business." (Art. 4 PfG)

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 in a safe, liquid, and long-term manner (in CHF bonds with a high or highest credit rating and adequately diversified). We regard safety as more important than yield. We only buy securities that are eligible for repos to ensure that the liquidity of our investments remains first class.

Other short-term bank transactions

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

What is therefore excluded by law?

The Pfandbriefbank is not permitted by law to engage in any other business activities, such as accepting customer funds, providing asset investment and management services, or using issue proceeds for purposes other than granting Pfandbriefe. Challenging issues, such as money laundering or the financing of companies with controversial business activities or business relationships abroad, are excluded from the outset. Additionally, Pfandbriefbank does not grant any mortgage loans. This financing activity is the responsibility of the banks, which also bear the credit risks.

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 environmental, social and economic issues into consideration as part of our commitment to sustainability.

In our understanding, Pfandbriefe are fundamentally sustainable instruments. They were developed to solve economic and the associated social problems. They are geared towards longevity, stability, and security. Sustainability is therefore part of Pfandbriefbank's DNA. Sustainability will continue to have a significant impact on our actions in the future. We can only fulfil our legal mandate if we strive towards solutions that are effective in the long term and that support a more sustainable economy and society.

Our legal mandate enables us to significantly contribute to a more sustainable society. At the same time, the law imposes narrow limits to our scope for action. Pfandbriefbank is not free to choose its business areas or how to structure its products. It can neither determine the mortgage strategies of the banks nor the renovation strategies of the 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 advisers and mortgage lenders), construction companies (as implementers of construction and renovation work) and legislators (as creators of the regulatory framework). At our last general meeting, we gave a presentation on sustainability and the subsequent guest presentation by the Swiss Bankers Association was titled "Sustainability in the mortgage business: self-regulation and activities of the Swiss Bankers Association". While banks, construction companies and legislators create the regulatory framework, the property owner is ultimately the sole decision maker.

Swiss banks support the transition towards a more energy-efficient building stock. Under the auspices of the Swiss Bankers Association, they have committed themselves to incorporating the topic of energy efficiency into the credit advisory process in the context of binding self-regulation. Guidelines for mortgage providers on the promotion of energy efficiency³ came into force on 1 January 2023, with a transitional period until 1 January 2024 for banks to adapt their internal processes. Many member banks also offer services or specific promotional products in this area.

Pfandbriefbank's role is to facilitate the procurement of capital for the long and costly process of making Swiss building stock more environmentally friendly. We expect the following change in this context: new buildings and replacement buildings are 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 a 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 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 among 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 many years to come. However, this share still needs to be funded for the foreseeable future – if only for social reasons – and therefore 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 regarding climate risks. Their recommendations form a common international framework that enables both the companies and the stakeholders in the financial industry to correctly assess and quantify their exposure to climate risks, supporting them to implement the necessary strategies as part of their business activities. In a broader sense, it is a question of making markets more efficient and ensuring that economies are better prepared to deal with climate change and risks. The Federal Council invites Swiss companies from all sectors of the economy to begin implementing these recommendations voluntarily.

In view of the Federal Council's support for the TCFD, it is also an objective of Pfandbriefbank to endorse the TCFD. We see ourselves as "reminder, 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 Pfandbriefbank Pool (www.pfandbriefbank.ch). This could serve as the foundation for a more sustainable product development process. Changes in the sustainability strategies

³ https://www.swissbanking.ch/_Resources/Persistent/c/b/b/3/cbb3619179bd238dca41328b246af560a2c0f3a/SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf

employed by investors and the other issuers are monitored 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 pursue this path in the future.

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

Figure 5: Our vision of sustainability in the context of the TCFD.

We achieve our economic objectives through long-term thinking and responsible acting. We assume social and environmental responsibility by being socially involved and limiting our utilisation of natural resources. We are committed to ensuring that our bank and our employees set a good example for society. To achieve this ambition, Pfandbriefbank has also implemented an extensive, corporate environmental management system. For example, we became CO₂ neutral for the first time in the 2020 financial year (see Chapter 5 for more information). We moved one step closer to achieving our additional goal of reducing our energy consumption through an extensive project to improve the energy efficiency of our offices in 2021/22. In 2022, we updated our IT infrastructure and decided with immediate effect to offer our employees the half-fare travel card, which enables them to use public transport at half price. In 2023, we are planning to perfect our in-house recycling system and to minimise the need for PET drink bottles by using a water dispenser.

We have always been socially committed, and we support valuable institutions and projects, e.g., a colouring book for children on preventing road accidents and improving road safety or a drug prevention leaflet for young people titled "For a life without drugs". In 2022, we made a financial contribution to the Papiliorama Foundation / International Tropical Conservation Foundation in aid of the Shipstern nature reserve in Belize, and to Zurich Zoo, which supports various nature conservation projects.

Since 2019, we have also been cooperating with Atelier 93 GmbH, Lenzburg, a company with a social mission in the vocational (re)integration of young people and adults and, where possible, we support people in their accompanied re-entry into working life.

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 – we have taken various measures in the areas of corporate social responsibility and environmental protection, in which social and ethical aspects are reflected throughout.

An up-to-date Corporate Governance system, which is rigorously tailored to our business model as well as to our 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, meets the highest standards, and offers maximum efficiency for the member banks. We achieve this by behaving in a socially responsible way towards society and especially towards our employees, as well as by operating in a way that is sustainable and environmentally friendly.

The Board of Directors, the Presidential Committee, the Cover Pool Committee, the Management, the auditors (in accordance with 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 Management.

Pfandbriefbank takes the interests of shareholders and stakeholders into consideration when defining the management and supervision at the highest corporate level, while ensuring a good balance between corporate strategies and transparency. Decision-making abilities and efficiency should be maintained. We are continuously working to improve the above mechanisms to ensure a constant level of honesty, integrity and responsibility towards ourselves, our member banks as shareholders and clients, and towards society and the environment.

Board of Directors

The Board of Directors is responsible for the overall direction and management of Pfandbriefbank. In accordance with the legal requirements, Pfandbriefbank is a joint undertaking of the member banks. Accordingly, the Board of Directors is primarily made up of representatives from the member banks (Art. 4 PfV). A representative of the mortgage debtors, who has been nominated by the Federal Council, also sits on the Board (Art. 37 PfG).

The Board of Directors has established two separate 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 promoting 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 Management, in accordance with Art. 15 of the organisational regulations.

The Cover Pool Committee takes care of all matters of interest of 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.

The tasks related to nominations, remuneration, sustainability, and audit are dealt with by the entire Board of Directors in view of our simple business model and the tight framework conditions.

Management

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

The Executive Director performs the roles of Risk Manager, Compliance Officer, and Chief Communication Officer. The Deputy Director is responsible for cover pool monitoring as well as acting as Chief Data and Information Security Officer and is therefore also responsible for risk management in the area of information and communication technology. The Vice Director is responsible for Capital Market and Accounting and is the main contact person for sustainability issues.

The Board of Directors is responsible for the strategic and sustainable orientation of Pfandbriefbank as part of its legal mandate. The Management and the employees are together responsible for the actual implementation of relevant policies.

3.2 Guiding principles

Pfandbriefbank is designed for security, stability, and sustainable business practices. A sustainable use of resources has always been embedded at the heart of the organisation. Pfandbriefbank strives to be a progressive and attractive employer upon which its employees can depend. This is why open interaction with one another is embedded in its guiding principles together with 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 ensures strict compliance with legal, supervisory and internal guidelines in all its activities. 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 the climate crisis and resource scarcity to a stable financial and economic system – Pfandbriefbank recognises its responsibility to contribute towards a stable environment and economy. Within the framework of our legal mandate, there are above all social and ecological sustainability dimensions. Providing sufficient capital enables a well-functioning and stable housing market with adequate affordable housing. Likewise, financial viability is one of the basic requirements for the ongoing, lengthy, and costly transformation process of improving 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 Ethics, integrity, and lawful conduct

Traditional financial institutions play an important role in preventing corrupt, unlawful, or unethical behaviour. As technology evolves, the dangers for society and the methods of abuse (e.g., money laundering, financing of terrorism, and favouring the anonymity of business relationships) are also increasing. Implementing preventative actions and conducting comprehensive employee awareness campaigns are crucial to prevent such abuses.

Pfandbriefbank is fairly protected from such risks due to its narrowly defined business activity and its structure. Nevertheless, it considers that prevention and raising awareness of its employees towards ethical and lawful behaviour are an important task as well as a duty towards its own employees, clients, and business partners. This also includes compliance with regulatory and legal requirements and the sanctioning of any form of bribery or corruption.

With the use of ASAP from KnowBe4, Pfandbriefbank has access to a content library with more than 1,000 training courses. It allows Pfandbriefbank to design a fully customised awareness programme (e-learning courses: presentations, videos, quizzes, etc.) for our organisation. Our employees receive training on the topics that are relevant to Pfandbriefbank (e.g., cyber security, working from home, corruption, data protection and sustainability) at our biweekly team meetings. In addition, all employees also have individual access and can thus receive specific further training.

In the event of suspected breaches in ethical matters, all employees have the option of reporting breaches as described in section 3.4.

3.4 Compliance

Good corporate management requires compliance with legal regulations and supervisory rules. It forms the basis for a responsible approach to managing all risks. These guidelines are key for us and form the foundation of our business.

The Pfandbrief Act of 1930 forms the cornerstone of all business activities carried out by the Pfandbriefbank. It stipulates that "authorisation from the Federal Council is necessary in order to exercise the right to issue Pfandbriefe" (Art. 2 PfG). The act also regulates the coverage of Pfandbriefe and loans (Section III), including the coverage of loans to the members themselves (Section III, II PfG). Before issuing Pfandbriefe, the responsible bodies must certify (coverage) that the statutory coverage is in place (Art. 9 PfG). The reporting requirements also state that the audit companies of the members of the 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 the Pfandbrief institutions and the audit companies employed by them" (Art. 38b PfG).

With regards to the audit, the Pfandbriefbank is obliged by law (Art. 38a PfG) to commission one of the auditors authorised by the Federal Audit Oversight Authority (para. 1). It must also have its annual reports audited "by a state-supervised auditing company in accordance with the auditing principles of the Swiss Code of Obligations" (para. 2). There is no obligation for the auditors / auditing company to rotate. However, the Swiss Code of Obligations stipulates in Art. 730a that the person who leads the audit may carry out the mandate for a maximum of seven years.

In general, the compliance structure of the Pfandbriefbank ensures that the aforementioned statutory, regulatory and other (internal) requirements are complied with. This protects members and investors alike. Furthermore, thanks to its compliance structure, the Pfandbriefbank can also prevent reputational damage.

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 disclosed and corrected at the first opportunity. To this end, Pfandbriefbank is in regular contact with various partners and actively asks them how satisfied they are with regard to the cooperation.

Binding guidelines and instructions have been issued for the handling of business activities and processes (e.g., payment transactions, issuing incl. lending, accounting, and awarding of contracts), and these are audited for compliance by an internal control system (ICS). This means that at least one additional, independent person performs control functions in each process and certifies the checks. The controls are documented in writing for each process run. This further counteracts problematic or unethical behaviour in the event of conflicts of interest.

Our clients, our investors, our employees and other third parties can address their complaints to us at any time by telephone, by email or in person to any member of the Management or the Board of Directors. However, any complaints should be first addressed by management, which will deal with the issue raised. Even though Pfandbriefbank is not obliged to submit to the Swiss Banking Ombudsman (www.bankingombudsman.ch), it has done so voluntarily. Questions and complaints can also be addressed to it at any time. As Pfandbriefbank is supervised by FINMA, anonymous reports can also be submitted via FINMA (www.finma.ch).

There were no legal or regulatory violations in the 2022 financial year. No complaints were registered.

3.5 Fighting corruption and money laundering

Pfandbriefbank prohibits and sanctions any form of bribery and / or corruption in its business transactions. Its business model, which is very narrowly defined by law, reduces the risk of potential money laundering to an absolute minimum. The compliance department is responsible for ensuring that regulations are complied with through regular monitoring and awareness raising. The employees are trained by means of online courses.

No cases of bribery and / or corruption were identified in the 2022 financial year. Likewise, no financial transactions were identified that would have posed a money laundering risk.

3.6 Data protection and security

Information security and data protection are fundamental components of Pfandbriefbank's business activities. Both are monitored, safeguarded, and improved by the Chief Data and Information Security Officer. In addition, it is the task of every employee to comply with the rules on data security and data protection at Pfandbriefbank. When dealing with sensitive data and information, increased attention is required and demanded. The rules and guidelines on information security are operationalized in security guidelines and are made available to every employee. Employees are also trained by means of online courses. Pfandbriefbank conducts annual risk-based audits to identify gaps and vulnerabilities in its data security. If any data protection incidents are detected, they are analysed promptly, and solutions are developed. Such incidents also serve as a basis for future improvement measures.

In addition, the completely revised Swiss Data Protection Act will come into force on 1 September 2023 and will set high requirements for the collection, retention, processing, and deletion of sensitive data. The requirements will be implemented on time.

No data protection incidents were identified in the 2022 financial year.

4 Social affairs and employees

Pfandbriefbank is designed on the principles of security, stability and durability, and its work makes a major contribution towards ensuring financial stability in Switzerland. In addition to our social obligations, we are aware of our responsibilities towards our employees. A motivated and highly trained workforce, which works together as a team, is our most important resource. We treat our employees, suppliers, clients and other stakeholders with respect and fairness because we are convinced that this benefits all stakeholders in the long run.

Within the scope of our operational possibilities, we promote equal opportunities and expressly distance ourselves from discrimination on grounds of gender, age, nationality, religion, or sexual orientation.⁴

The Swiss banking industry has had a well-functioning social partnership between employers and employees since 1920 (!). Together, with the "Agreement on Terms of Employment for Bank Employees" (VAB), they form one of the oldest collective labour agreements in Switzerland.⁵ Although Pfandbriefbank is not an actual bank as such, it is a voluntary member of Arbeitgeber Banken, the employer's association for banks in Switzerland. As a result, Pfandbriefbank's employees are subject to the VAB and benefit from generous regulations.

⁴ Art. 1a of the VAB Agreement.

⁵ Further information about the Social Partnership in the Swiss banking industry and about the VAB, including its evolution, can be found at: www.arbeitgeber-banken.ch/dienstleistungen/sozialpartnerschaft.

4.1 Social issues

It is essential for Pfandbriefbank to have a systematic approach to its stakeholders and their demands. Regular communication with our stakeholders is primarily led and coordinated by the Management and is part of Pfandbriefbank's strategy. This contributes to the continuous improvement of our organisation and the implementation of new ideas. The dialogue regarding sustainability issues has increased noticeably in recent years. We use feedback from both our stakeholders and the rating agencies as a pool of ideas for further potential improvements.

In carrying out our business activities, we have identified various stakeholders:

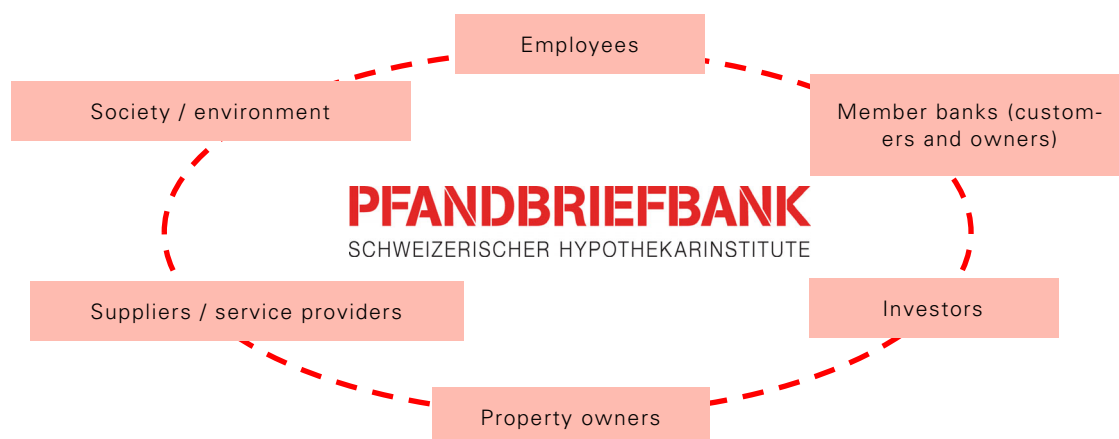


Figure 6: Our stakeholders (own illustration).

4.2 Corporate/management culture and employees

At Pfandbriefbank, the skills, knowledge, commitment, and motivation of its employees form the basis of our success. Progressive and attractive working conditions are an integral part of this and make a significant contribution towards the wellbeing and thus the motivation of the workforce.

Pfandbriefbank's team is small, and all employees are employed directly by Pfandbriefbank: we do not work with contractors. Ten people are employed at Pfandbriefbank's (only) office, with a full-time equivalent of 8.4 FTEs. Since 1 January 2023, the Management has comprised three people, and there are seven members of staff.

	2020		2021		2022	
	FTEs	Employees	FTEs	Employees	FTEs	Employees
Starting figure	6.8	8	7.4	9	7.6	9
Decrease						
Increase	0.6	1	0.2		0.8	1
Closing figure	7.4	9	7.6	9	8.4	10

Figure 7: Full-time equivalents and number of employees (data collected internally).

As a small business, we are focused on stability, longevity, and security in our role as employer. Proof that Pfandbriefbank's workforce is satisfied can be demonstrated in the low staff turnover and their long-standing service: the average length of service is more than ten years. Half of our employees have worked at the Pfandbriefbank for 13 years or more. From our perspective, this highlights the quality and stability of the jobs and working conditions that we offer.

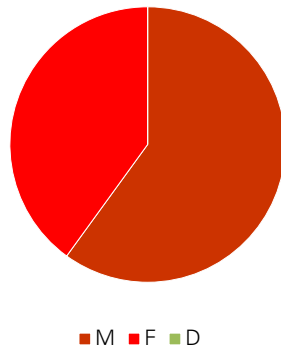


Figure 8: Gender distribution (data collected internally).

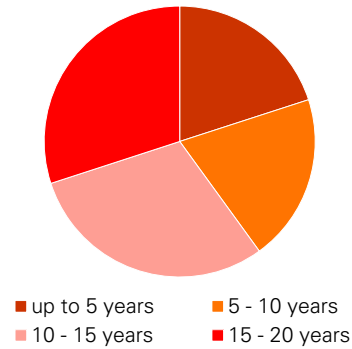


Figure 9: Seniority distribution (data collected internally).

Making sure that our employees have a good work-life balance is important to us at Pfandbriefbank. In the past, especially during changes in living circumstances (e.g., starting a family), the Pfandbriefbank team has been able to find solutions that are acceptable to all parties. Part-time working is possible and helps us retain our long-serving members of staff. In addition, we allow leeway to adjust working hours to personal needs in an uncomplicated manner. Part-time employees receive the same general conditions as full-time employees. We grant sabbaticals as special leave or extend the legally mandated parental leave when requested by employees. Our internal deputy system also makes it easier to return to work with a reduced workload.

Unlike companies with a large workforce and constant staff turnover, our small number of employees as well as their long-term commitment to the company does not allow any statistically significant conclusions to be drawn regarding our HR policies. Singular events can have a significant and long-lasting impact on changes in staffing. It is important for the principles of equal opportunity to be taken into consideration in every personnel decision: gender, origin, age, sexual orientation, etc. are irrelevant. The only things that matter for Pfandbriefbank are the personal and professional skills of the applicants.

Due to the small size of the team, close cooperation 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. There are short hierarchical and local decision-making paths, and the door is always open to employees for any concerns or suggestions. The management style is participative. Being proactive and assuming responsibility is not just permitted but encouraged. Employees are heard, and their opinions are taken into consideration when making decisions.

In addition, we attach great importance to good team spirit, which we encourage through joint activities and experiences (business trips, meals together, etc.). There are also no individual 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 satisfaction as well as the health of the employees is very important to Pfandbriefbank. Staff and the Management are able to criticise or to make constructive suggestions at any time. Thanks to short decision-making paths, adjustments can be implemented swiftly and easily. Our employees' wellbeing and satisfaction are specifically looked at during discussions and surveys, which take place at least once a year. There were no negative experiences recorded in 2022. Our employees enjoy working at and for Pfandbriefbank and value their colleagues.

The low staff turnover, due to the many years of service, helps to create an informal work culture and a trust-based working environment. Our day-to-day work is characterised by a flat hierarchy and a culture of open communication. In addition to direct contact, our regular team meetings also provide opportunities to address any issues openly and directly. This vessel is also used to discuss planned or pending innovations before they are implemented.

If any major differences in opinion emerge, employees can directly approach members of the Board of Directors, who are personally known to the staff.

Freedom of expression, assembly and association and the right to form a professional association are four of the fundamental rights under the Swiss Constitution (Articles 16, 22, 23 and 28 respectively). As an employer, Pfandbriefbank respects and protects these fundamental rights of its employees. All employees are allowed to join a trade union, in our industry typically one of the two associations that are also involved in the Social Partnership, namely the Swiss Bank Employees Association or the Swiss Commercial Association. Under the VAB, employees also have the explicit right to establish an internal staff committee with far-reaching rights of co-determination in personnel matters.

In a small business, mutual understanding of processes and activities is particularly important. Therefore, in the course of their work at Pfandbriefbank, our employees are repeatedly given the opportunity to participate in different departments or to take on new areas of responsibility (job enrichment and enlargement). Access to the ASAP training and knowledge database enables our employees to acquire additional knowledge or to refresh their existing knowledge online at any time, both in their own field of activity and across the board. The Swiss Bankers Association also offers regular webinars on current topics. When necessary, we work together with our large network of member banks, which have a wide range of internal banking courses to provide additional training opportunities. In addition, independent third parties provide a wide range of banking-related courses and more general training opportunities. Pfandbriefbank supports its employees and contributes financially and/or through vocational training projects during working hours and, if requested, it also enables workload reductions.

As a progressive employer, we offer our staff the option of flexible working and working from home. This enables the workforce to work flexible hours reduces commuting as well. However, all employees still have their own workstation in the office. The option of working from home was widely used in 2022 – reinforced by the COVID-19 pandemic until the end of March 2022. Out of 1,826 days worked by all employees, 613 were worked at home. This corresponds to 34%.⁶

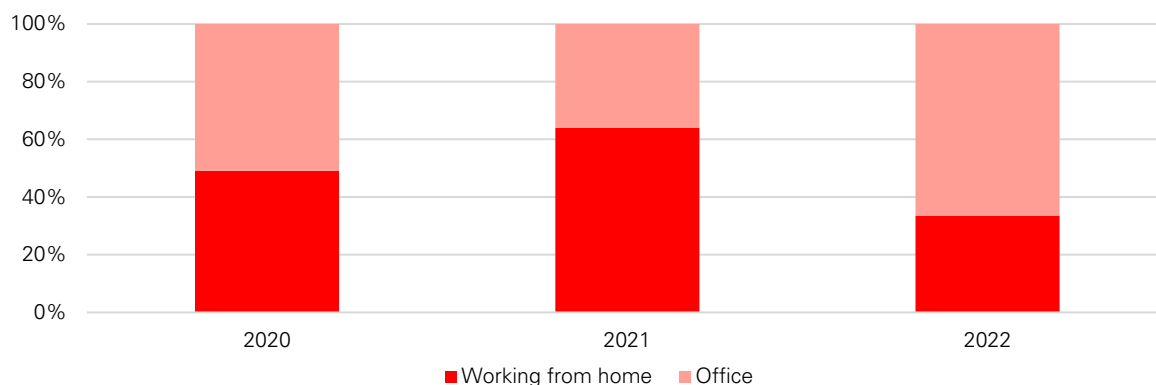


Figure 10: Place of work in % (data collected internally).

4.3 Compensation and benefits

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

In accordance with our security-oriented company culture, we also take our duty of care towards one another seriously. Alongside a competitive, gender and workload-independent,

⁶ Data collected internally.

market-based, and performance-related remuneration, the provision of generous social security has always been important to Pfandbriefbank. It is just as important to us that all employees (regardless of gender, workload, or hierarchical level) can benefit from the same (generous) insurance and pension solutions. Regarding accident, accident supplement and daily sickness benefits, there is a single policy that is valid for the entire staff and Pfandbriefbank covers the entire premiums for everyone (until further notice). Regarding the pension fund, there is also a single pension plan that applies to all employees. There are no C-suite special benefits, and all details of insurance and pension benefits are known to the entire workforce. This principle of equal treatment also applies to additional benefits such as Reka-Checks, Lunch-Checks, half-fare travel cards and travel expenses. Members of the Management are subject to additional expense regulations approved by the tax authorities of the Canton of Zurich with a flat-rate expense scheme.

Likewise, all employees are treated equally regarding variable compensation components. Bonuses, which are still common elsewhere in the banking industry, were abolished at the end of 2019 for all employees – from the staff through to the Managing Director.

Under Art. 4 PfG, only Swiss banks may become shareholders of the Pfandbriefbank. Accordingly, employees are not allowed to own shares in Pfandbriefbank.

Personnel costs can be found in our annual report (www.pfandbriefbank.ch). The salaries of all employees are disclosed and discussed in the Presidential Committee. This ensures that remuneration is fair and in line with the industry. The salaries of the Management are discussed and determined by the full Board of Directors. The wage gap is small compared to the rest of the sector.

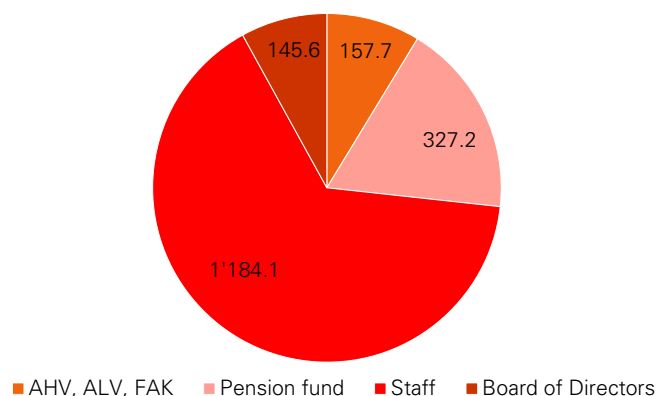


Figure 11: Distribution of personnel expenses in CHF thousands (data collected internally).

The social security of its employees has always been a major concern for Pfandbriefbank. As mentioned above, 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 occupational pension solution also emphasises its active responsibility towards its employees and their relatives. As early as 1933, i.e., shortly after Pfandbriefbank was founded and almost 50 years before the introduction of the statutory minimum, Pfandbriefbank joined the now-called Bafidia Pensionskasse Genossenschaft (then known as Pensionskasse schweizerischer Regionalbanken) and insured its employees. The Bafidia Pensionskasse was founded by different regional and savings banks in 1926 as a self-help organisation. As a cooperative, which is an unusual legal form for a pension fund nowadays, the Bafidia functions on a democratic basis: all affiliated members must choose one employer and one employee representative, which grants them a direct say at the Assembly

of Delegates, at which the board (management body) is elected and changes to the regulations are determined. Important decisions therefore always require the approval of both employers and employees. This principle of joint consent also applies to Pfandbriefbank's pension plan. Our plan is modern and provides the insured with individual options within the framework of the pension fund's statutory 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.⁷

4.4 Occupational health and safety

The health and safety of our workforce is a high priority for Pfandbriefbank. Our offices are in an ideal location immediately next to the Zurich Oerlikon railway station. In addition to excellent connections to the public transport network, the location also offers a number of shops and restaurants in the vicinity. If, exceptionally, employees need to travel by car, 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 offices) near windows, which can be opened to provide ventilation. We provide coffee and tea (organically grown) as well as cold drinks to our employees free of charge. To promote employee health, all workplaces have ergonomic chairs and height-adjustable desks as well as efficient lighting that is easy on the eyes. Newly purchased technical equipment are state of the art, while also taking health-related and environmental aspects into consideration.

The above-mentioned membership of Arbeitgeber Banken subjects Pfandbriefbank's employees to the two Social Partnership frameworks: the "Agreement on Terms of Employment for Bank Employees" (VAB) and the "Agreement on the Recording of Working Time" (VAZ).⁸ Both frameworks also cover the topic of health and safety. To ensure statutory working hours, care is taken to ensure that a working week of 42 hours (at 100%) is not exceeded wherever possible. Thanks to flexible working hours, employees can also use the many sporting and health-promoting facilities near the office premises during the day.

All employees benefit from generous vacation policy. The industry solution pursuant to the VAB already grants a fifth week of holiday to everyone. From the age of 50 or 60, at the latest, Pfandbriefbank grants its employees an additional week of holiday and, if they have also reached their 11th year of service, they also receive an additional week of holiday (i.e., a maximum of seven weeks). Care is taken to ensure that all employees take their holidays and are therefore able to rest. Pfandbriefbank also makes a small contribution to its employees' leisure and holiday activities through the subsidised issue of Reka-checks.⁹

4.5 Respect for human rights

Our business activities and this report are primarily guided by the international provisions on human rights that are binding in Switzerland and have been implemented in national law. As a Swiss company operating in Switzerland, Pfandbriefbank is committed to respecting human rights. Its business partners such as service providers and suppliers are also located in Switzerland. Pfandbriefbank knows the companies and their circumstances. To date, no

⁷ See also www.lunch-check.ch.

⁸ For more information about Arbeitgeber Banken, as well as the VAB and VAZ, go to www.arbeitgeberbanken.ch.

⁹ See also www.reka.ch.

violations of human rights, employment or working conditions have been identified and no such violations been reported.

5 Environment and operations – targets and metrics

As a complex and multifaceted issue, sustainability has attracted widespread attention – economic, political, and societal – for quite some time, and its significance has rapidly gained momentum in recent years. As already explained at the beginning of this report, Pfandbriefbank – or rather the Swiss Pfandbrief® system – also plays an important role in terms of environmental sustainability as a result of its statutory mandate. Ensuring the financial viability of the building stock will enable its transition towards greater energy efficiency. Stable and sustainable financial viability is a prerequisite for every renovation project and for every energy-efficient new building. Our business activities create this financing base.

Pfandbriefbank is aware that it will be required in the future to adjust to change political and societal conditions regarding sustainability and to react accordingly. The requirements will continue to evolve, and we will have to adjust to them. We fulfil our legal mandate sustainably and, in a resource efficient way so that we can continue to operate our business in a stable manner over the long term. We therefore give our energy consumption, CO₂ emissions and efficient use of resources a significant role in our own operations.

As a strategic goal in terms of sustainability, Pfandbriefbank focuses on constantly reducing its own ecological footprint. To this end, we began to consistently implement a number of smaller and larger measures in all areas of our day-to-day business operations many years ago. As a matter of principle, we have relied on long-term, and where possible local, supplier relationships. 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 societal actors for a chance at success.

Sustainable operating activities are important for Pfandbriefbank. As such, Pfandbriefbank has set itself the goal of using natural resources conscientiously, sparingly, and efficiently. Our long-term goal is to minimize the use of energy and raw material necessities. Both the environmental and material consumption in the offices, the district heating consumption, the mobility of employees as well as the electricity and water consumption are all considered and monitored. In case of replacements or new purchases, longevity, and energy efficiency in terms of environmental sustainability are considered to be crucial. We ensure long usage cycles for furniture as well as technical equipment, and always check for the possibility of repairs if faults occur. Besides minimising our consumption of energy and other materials, we consistently use environmentally friendly forms of energy (green electricity, district heating) and recycle valuable materials.

Through this holistic and comprehensive 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 as CO₂-neutral as possible. For this reason, since 2020, the CO₂ footprint (as CO₂-e) of the business operations has been determined as part of a greenhouse gas balance across all three scopes together with the Swiss climate protection foundation myclimate and invested accordingly in sustainable projects.

For the 2022 financial year, the carbon footprint figure came down to 20 t CO₂e. The calculation was made in accordance with the internationally recognised GHG Protocol Corporate Accounting and Reporting Standard. The data basis for the calculations comes from ecoinvent 3.6 and the IPCC 2013 calculation method (GWP 100a). myclimate updated the emission factors from version 2.2 to version 3.6 in autumn 2022. This explains the differences in comparison to the previous year. In line with the CO₂ target, the total emissions are offset by investments in myclimate carbon-offsetting projects in Switzerland. myclimate's reports and certificates regarding our greenhouse gas balance sheet are published on our website.

We plan to continue calculating our carbon footprint and investing sustainably. With such investments, Pfandbriefbank not only wants to support well-founded projects but also to raise awareness on this topic and to express its willingness to minimise its CO₂ emissions.

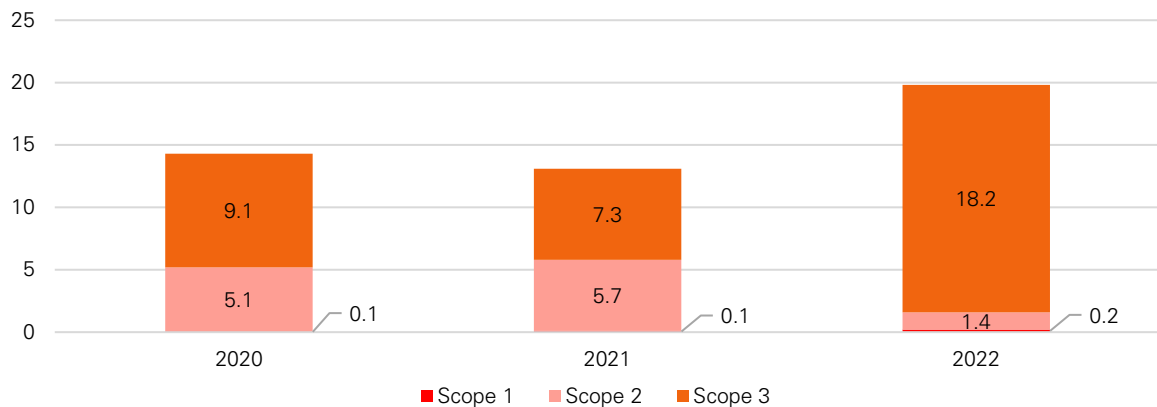


Figure 12: Change in greenhouse gas emissions over time according to published greenhouse gas balance sheets in t CO₂e (data collected internally).

5.2 Renovation of own premises and offices

In the second half of 2021, Pfandbriefbank's offices were renovated and refurbished, where energy-saving refurbishments – within the limitations of planning regulations and structural constraints – represented a central aspect. The comprehensive and large-scale renovation and refurbishment work included, among other things, the installation of new, high-quality windows, the thermal insulation of the façade area and the replacement of our old, inefficient radiators, air conditioning and kitchen appliances. With replacement or new acquisitions, attention was paid to the highest available energy efficiency. The lighting was consistently converted to LED (workplace lights with integrated light management for synchronous daylight and season-dependent control of light colour).

In 2022, all IT hardware at our workstations was replaced. After many years of operation, the devices were at the end of their service life (five years for thin clients and ten years for monitors). Attention was paid to energy consumption when selecting new IT hardware. Our new equipment acquisition had a one-off impact of 11 t CO₂e on our 2022 greenhouse gas balance sheet in Scope 3.

5.3 Environmental management and key indicators

As part of its environmental management, Pfandbriefbank has systematically recorded its key figures on water, electricity, and district heating consumption since 2020. This facilitates the yearly comparison, which supports our operational objective to minimise consumption. Unfortunately, due to the old installations in the building (building dating back to the 1970s and Pfandbriefbank has a condominium ownership share of only 3.9%), we can not yet determine all the key indicators individually for Pfandbriefbank. The renovation of

our offices will have a significant and long-lasting effect in terms of reducing our energy consumption and is therefore a key part of our operational efficiency strategy.

We consider sustainable production when purchasing consumables. For any unavoidable paper consumption, we use ecologically certified paper. For several years now, we have successfully worked towards reducing our paper consumption and using digital options instead. As a result, we now need around three quarters less 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 physically. Our employees now also use black and white as the default printing option and only switch to using colour ink when necessary.

In addition, we separate all unavoidable waste and take reusable materials to the respective collecting points. This includes paper, cardboard, PET bottles, glass, batteries, metals, and coffee pads. We are taking further steps in the area of recycling during 2023 (see also Chapter 6).

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

Electricity and water consumption of the offices¹⁰

In 2022, our total electricity consumption of Pfandbriefbank's offices amounted to 6,858 kWh. The "ewz.natur" type of electricity is obtained from ewz¹⁰: natural electricity from water, sun and wind. This is 100% produced at ewz's own production facilities in Switzerland and across Europe.

Our water consumption (according to the quota key) was 56.4 m³ in 2022. We reduced our water flows to a standard 70% by means of a special, water-efficient tap in our kitchen and flow restrictors in the toilets on each floor – which has had 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. In 2022, our annual consumption (according to the quota key) was 23.7 MWh.

Type	2020	2021	2022
Electricity consumption kWh	9,591	11,133	11,872
Of which electricity in the office kWh	5,311	5,822	6,858
Water consumption m ³	85.1	73.2	56.4
District heating consumption MWh	25.6	28.3	23.7

Figure 13: Consumption of energy, water, and district heating in the offices (data collected internally).

Mobility and commuting¹¹

Mobility, either through commuting or business travel, is a significant factor in CO₂ emissions, with the (exact) impact largely depending on the means of transport. Our aim is to continuously reduce 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 investing in climate protection projects, we are also creating financial incentives for ourselves to act in an environmentally friendly way.

¹⁰ Data collected internally, based on ewz data among other sources.

¹¹ Data collected internally.

We encourage our employees to use public transport instead of travelling by private car when commuting, and we subsidise the former in the form of Reka-checks and, since 2022, by giving each employee a half-fare travel card¹² free of charge. Generally, most of our employees travel to work using public transport or by bicycle. However, the data for 2020, 2021 and to some extent also 2022 are less representative due to the COVID-19 pandemic: official, operational, and private protective measures (e.g., home office obligation, split office set-ups, and use of private transport to avoid crowds on public transport) are likely to have reduced commuting overall but increased the proportion of private transport (partly already privately compensated for by employees).

The total distance commuted by all our employees in 2022 was 71,403 km. Of this, 63,121 km was travelled using public transport and 8,282 km by employees using their own cars. This means that 88.4% of the distance commuted was covered using public transport. We aim to increase this percentage further. Employee commuting is included in Pfandbriefbank's greenhouse gas balance.

There are no company cars, either for individual employees (incl. Management) or for shared use.

Means of transport in km	2020	2021	2022
Public transport	34,440	13,700	63,121
Private transport (car)	14,168	10,800	8,282
Total	48,608	24,500	71,403

Figure 14: Breakdown of employee distance commuted by public and private transport (data collected internally).

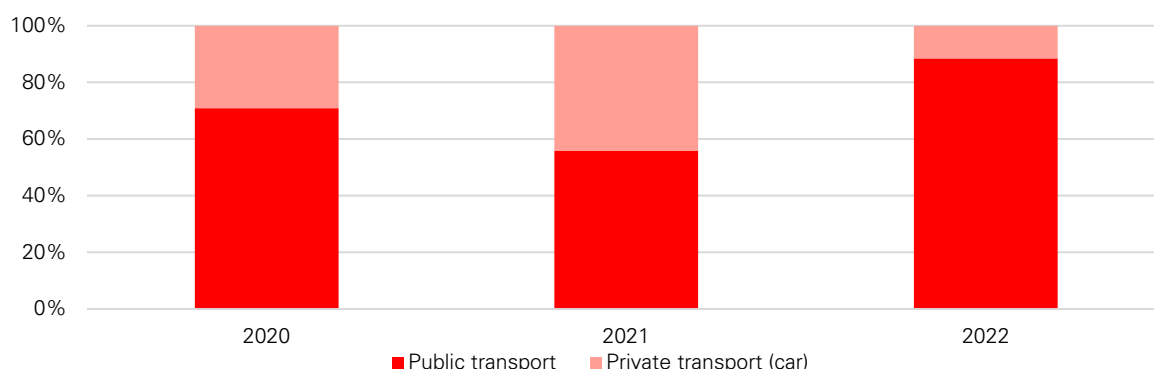


Figure 15: Proportion of employee distance commuted by public and private transport (data collected internally).

When it comes to business travel, we also try to make sure that it is as environmentally friendly as possible and use public transport wherever feasible or try to minimise flight or car kilometres through intelligent travel planning. Once again, the data for 2020, 2021 and to some extent 2022 are not representative due to the COVID-19 pandemic (e.g., due to restrictions on travelling abroad and the overall cancellation of in-person meetings).

The total distance travelled by our employees on business trips in 2022 was 9,577 km. 71% 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. For air travel in 2022, the surcharge for biofuel was paid in each case in order to minimise CO₂ pollution at the source.

¹² The half-fare travel card entitles holders to use public transport throughout Switzerland for half price.

Means of transport in km	2020	2021	2022
Public transport	2,076	492	6,797
Private transport (car)		273	380
Air transport			2,400
Total	2,076	765	9,577

Figure 16: Breakdown of employee business travel by public and private transport (data collected internally).

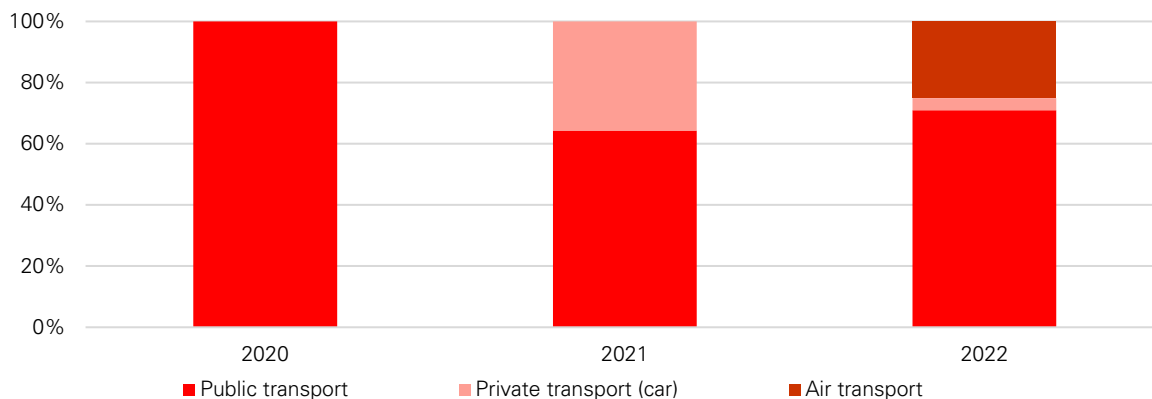


Figure 17: Proportion of employee business travel by public and private transport (data collected internally).

6 Goals for the next business year

For the 2023 financial year, we want to address the following issues:

- We intend to conduct a materiality analysis to identify the key issues for Pfandbriefbank and use them as the basis for defining possible strategic directions for our Sustainability Report 2023.
- In the short to medium term, we want an individual calculation of electricity and water consumption per condominium owner. The prerequisites for this should be clarified and the request will be addressed to the condominium owners' association.
- The installation of a photovoltaic system on our business premises is to be included in the existing renovation plan in order to be able to cover ourselves as much as possible the electricity requirements in the future.
- We wish to conclude a WeRecycle subscription with Recycling Services AG, Kempththal, with the aim of optimally recycling the entire range of recyclable materials (which now includes plastics and beverage cartons). At the same time, we will be supporting a company that provides work to people who have fewer or no opportunities on the primary labour market.
- We wish to purchase a water dispenser with a filter system to treat tap water as a substitute for mineral water in PET bottles. The filters will clean the water of odours, tastes, and pollutants. This will remove the need to transport water or to use PET bottles.
- In our role as "reminder, tracker and observer", we want to make the CO₂ emissions of the pledged properties available to the member banks in comparison to the entire cover pool. We want to create transparency and at the same time make the banks aware of the issue of energy efficiency in the building stock.

7 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 internal and external data used for this purpose has been carefully checked, but no liability can be accepted for any errors.

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 will depend on external factors that are beyond the control of the Management or the Board of Directors.

The German-language version of this report shall take precedence in cases of uncertainty or conflict.

Reporting period

Financial year 2022 (1 January to 31 December)

Reporting cycle

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

Appendix I

Exclusion policy

Background

The Swiss Pfandbrief® system was established in 1931 with the enactment of the Pfandbrief Act (PfG) and was supplemented by the Pfandbrief Ordinance. In Switzerland, only two institutions are authorised to issue Pfandbriefe, namely the Pfandbriefzentrale der schweizerischen Kantonalbanken AG and Pfandbriefbank schweizerischer Hypothekarinstitute AG (referred to below as Pfandbriefbank). Pfandbriefbank pursues a very precisely defined purpose: to issue Swiss Pfandbriefe®, as a product geared towards security and stability, and to pass the proceeds on to its members for refinancing their mortgage businesses. The legal mandate is a long-term, stable, and most favourable financial viability of the domestic building stock, and thus the basis for living and working for the Swiss population. In view of the necessary transition of the building stock towards more energy efficiency and lower pollutant emissions, the associated additional costs will also have to be financed. In line with its mandate, the Swiss Pfandbrief® system will make a significant contribution to facilitating a successful transition.

The Pfandbrief system enables all member banks to access the capital market indirectly and thereby supports diversity in the banking sector, which is characterised by large banks that are focused 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® system thereby makes multiple contribution 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. In carrying out our business activities, we bear responsibility towards our employees, member banks (who are both clients and shareholders), Pfandbrief investors and other business partners such as service providers and suppliers, as well as society and the environment.

At the same time, however, the Pfandbrief Act places narrow limits on our scope for action. Pfandbriefbank is not free to choose its business areas or to structure its own products. It cannot determine the member banks' mortgage strategies or the property owners' renovation strategies. Its business scope is definitively and narrowly defined by law, and only allows Pfandbriefbank to carry out activities that are directly associated with the Pfandbrief business. This exclusion policy aims to clearly define our business boundaries and explain the limits of our scope of action.

Statutory exclusions

The Pfandbrief Act stipulates that only Swiss banks may become members of Pfandbriefbank and 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. Pfandbriefbank's business activities are therefore restricted to Switzerland. Accordingly, high Swiss standards apply with regard to aspects such as human rights, working conditions and the environment. Due to Pfandbriefbank's strictly regulated legal framework, issues relating to international tax planning practices can also be ruled out. It is also important to note that:

- Pfandbriefbank is not a bank in the usual sense and does not have a banking licence pursuant to the Banking Act but is authorised by the Federal Council as a Pfandbrief central office pursuant to Art. 2 of the Pfandbrief Act.
- Pfandbriefbank has a statutory refinancing mandate, and this relates to the mortgage business as a whole.
- Pfandbriefbank has no direct influence on the banks' lending activities.
- A Pfandbrief loan is only one out of several refinancing sources and there is no direct refinancing link to the cover pool.
- A member bank's cover pool is exclusively assigned the role of securing the Pfandbriefe.
- A member bank can exchange or deregister individual mortgage loans in the cover pool at any time as long as the overall cover is guaranteed.

Here you will find another detailed overview of our business limitations under the Pfandbrief Act and the Pfandbrief Ordinance:

Authorisation by the Federal Council

The authorisation by the Federal Council is a prerequisite for exercising the right to issue Pfandbriefe (Art. 2 PfG). The Federal Council's direct involvement is also evident in other aspects of Pfandbriefbank's activities. It is particularly worth mentioning that the Federal Council nominates a member of the Board of Directors as representative of the mortgage debtors (Art. 37 PfG) and that it must explicitly approve the articles of association (Art. 2 PfG) as well as the valuation regulations on which the cover is based (Art. 32 PfG).

Membership

Any credit institution with its head office in Switzerland may be a member of the Pfandbriefbank. If at least 60% of a credit institution's balance sheet consists of receivables in the domestic mortgage credit business, it has a statutory right to membership (Art. 4 PfG). However, the Pfandbrief institutions are free to accept other Swiss credit institutions as members.

Business scope

The business scope of the Pfandbrief institutions is narrowly and conclusively defined, and includes in practice (Art. 5 PfG):

1. the issuance of Pfandbriefe
2. the investment of the proceeds from the issuance of Pfandbriefe in covered loans to member banks
3. the investment of equity and debt capital in accordance with the definitive list in Art. 5 Lit. 3 PfG
4. other short-term bank transactions only to the extent required for the issuing of Pfandbriefe and the granting of loans.

Issuance of Pfandbriefe

Pfandbriefbank may only issue Pfandbriefe in such amounts that the total of all on-balance-sheet debt obligations, including Pfandbriefe, does not exceed fifty times its equity capital (Art. 10 PfG). The responsible bodies must ensure and certify that the statutory minimum coverage is available before Pfandbriefe are issued (Art. 9 PfG). The wording and external design of the Pfandbriefe are subject to the approval of the Swiss Federal Department of Finance (Art. 7 PfV).

Issuance of loans

Pfandbriefbank grants its members and other credit institutions covered loans from the proceeds of Pfandbriefe issuances. The maturity of the loans must coincide with the maturity of the Pfandbriefe from the proceeds of which the loans were granted. (Arts. 11 and 12 PfG). In practice, the total amount of the loans granted must serially correspond to the Pfandbrief issuance, as the cover required for the Pfandbriefe pursuant to Art. 14 PfG would otherwise not be guaranteed. The interest on the loans is serially linked to the interest on the Pfandbriefe to ensure that Art. 15 PfG can be complied with.

Coverage of loans

The loans to Pfandbriefbank members and the outstanding interest thereon must be covered at all times by members' mortgage pledges or collateral claims on their debtors, which are kept and administered by the members. The liens on these claims must be located in Switzerland, the pledges on domestic liens or mortgage bonds must exist (Art. 19 PfG). The member banks must enter the cover for their loan withdrawals in a pledge register

(Art. 21 PfG). The loans of the Pfandbrief institutions and the outstanding interest thereon enjoy a lien on the cover entered in the members' pledge register without the need for a special pledge agreement and the transfer of the cover to the Pfandbrief institutions or their representatives, or an entry in the land register (Art. 23 PfG). Accordingly, an overall lien applies to all loans in the entire cover pool.

Members, shareholders, and clients

According to Art. 26 PfG, it would also be possible to grant loans to non-members, but this would require a transfer of cover, which is not done in practice. Accordingly, the circle of member banks corresponds to the circle of clients and shareholders. This also reflects the historical background: the two Pfandbrief institutions were established as joint undertakings in the sense of self-help communities. Accordingly, pursuant to Art. 4 PfV, the Board of Directors is also to be "appointed from representatives of the member institutions" (apart from the representative of the mortgage debtors who is nominated by the Federal Council).