

# SUSTAINABILITY REPORT

## 2016



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# FOREWORD BY THE CHAIRMAN OF THE BOARD OF MANAGING DIRECTORS

Dear Customers and Business Partners,

As one of Germany's oldest leading Pfandbrief banks, we combine decades of tradition and experience in the field of commercial real estate financing with responsible corporate governance and a strategy focused squarely on the future. Sustainability is therefore one of Deutsche Hypo's key areas of action, which is why we strive for a set-up that facilitates lasting profitability. This, in turn, will ensure the Bank's future earning power and secure jobs for today's and generations to come. With regard to commercial real estate finance, we serve as a partner whose financing has an impact on the physical design of many cities. Quality, professionalism and the sustainability of the properties we finance are key factors in lending decisions.



Our Sustainability Report 2016 is intended to provide you with insight into our sustainability measures. In this report, we describe how Deutsche Hypo has backed the five fields of action for sustainability – governance, customers, employees, society and the environment – with strategic priorities. We are delighted to see the excellent progress being made in establishing sustainability at Deutsche Hypo. Sustainability is reflected in thought and action within the Bank. Our employees are dedicated to leading Deutsche Hypo to a successful future.

This report is guided by the Global Reporting Initiative's G4 standard. We performed a materiality analysis of those issues on which Deutsche Hypo is capable of exerting the greatest influence or which have the greatest potential to influence Deutsche Hypo from the stakeholders' perspective.

I hope you find this report informative!

Yours sustainably,

A handwritten signature in blue ink, appearing to read 'Pohl', written in a cursive style.

Andreas Pohl  
Chairman of the Board of Managing Directors

## NOTES ON THIS REPORT

Deutsche Hypothekenbank (Actien-Gesellschaft), with its registered office in Hanover, Germany (hereinafter referred to as “Deutsche Hypo” or the “Bank”), declares that it took the greatest possible care in conducting the materiality analysis for this report and in compiling the texts and data therein, that the information contained in this report is correct to the best of its knowledge and that no material omissions were made.

Deutsche Hypo has prepared this report in accordance with the Global Reporting Initiative (GRI) G4 guidelines in compliance with the core option. The report was approved by the Board of Managing Directors of Deutsche Hypo at its meeting on 1 August 2017. No external audit has been performed.

The report, which was prepared for the first time in 2016 and will be published annually in future, comprises the period from 1 January 2016 to 31 December 2016. When available, the performance indicators presented here relate to financial years 2014, 2015 and 2016.

Deutsche Hypo publishes its business figures annually in accordance with the German Commercial Code (Handelsgesetzbuch – HGB). The annual report for 2016 provides the underlying data for the performance indicators stated in this report.

For the purpose of improved legibility, gender-specific terminology was not used in this report. All terms therefore pertain to persons of all genders. Likewise, the term “employee” refers to all regular members of staff and executives, including the Board of Managing Directors, unless said persons are reported separately.

As of the closing date of 31 December 2016, Deutsche Hypo had a staff of 408 employees.

The data pertaining to employees and products are obtained from systems used in accounting and by other departments that compile the results of all ongoing business processes. In addition, data is generated from established processes and systems, such as the human resource management system.

In its presentation of the Bank’s operational performance indicators in the section entitled “Bank operations”, and in the calculation of the company’s greenhouse gas emissions, Deutsche Hypo is guided by the standard propagated by Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VfU). Deutsche Hypo’s staff figures are gathered in accordance with the (corporate evidence) guidelines of its parent company, NORD/LB, to ensure a comparable approach that is consistent throughout the Group.

Changes during the reporting period: With regard to consumption values, the environmental performance indicators presented in the section entitled “Bank operations” correspond to the values for the corresponding financial years for the Hanover location. The values therefore relate to the 376 employees based in Hanover, or 92.2 % of the Bank’s workforce.

## Value chain

In an economy, private households, businesses, the state, foreign trade and banks are the five main sectors that have a material influence on economic activity. In this context, banks are considered to be a part of the financial sector, which plays a pivotal role in economic activity and is where monetary transactions are handled, payments are processed and (monetary) assets are managed.

As financial intermediaries, banks enable investments that are essential to the success of customers and therefore act as a middleman between market participants that want to invest or borrow money. The acquired monies are combined to form a loan pool that is used to grant long-term loans following a check of the borrowers' and objects' creditworthiness and probability of default. In doing so, banks make it possible to achieve a balance between demand for loans and the supply of money through lot size transformation, maturity transformation and risk transformation, which can be explained as follows:

- Lot size transformation: the conversion of amounts of money into various different amounts of money
- Maturity transformation: the achievement of balance between various maturity interests
- Risk transformation: the assumption of risks

The significance of banks in an economy is therefore not limited solely to circulating money, but also includes enabling access to the capital market so as to expand the range of financing instruments and opportunities available to businesses. In doing so, the financial sector acts as a driving force behind a country's future economy. Banks rely on the input of various market participants, hereinafter referred to as "stakeholders", in the internal management of their business activities. As a result, the output of the Bank's primary and supporting processes constitutes added value for society.

# MATERIALITY ANALYSIS

The materiality analysis aims to identify material issues (hereinafter referred to as “aspects”) along with their economic, social and environmental impacts or their influence on judgements and decisions by stakeholders.

The following principles of the GRI guidelines were used in performing the materiality analysis:

- Stakeholder inclusiveness
- Materiality
- Sustainability context
- Completeness

Chart 1: Steps in the materiality analysis process



## Stakeholders

Deutsche Hypo fundamentally considers all persons and organisations that are directly or indirectly influenced by Deutsche Hypo’s business activities, or are able to exert an influence on the business success of the Bank, to be stakeholders.

In Deutsche Hypo’s view, stakeholders have a wide range of interests in the bank that include, among other things, the general approach to dealing with regulatory requirements or business development. The approach to dealing with risks, the future focus of the company and the setting of environmental, social and economic goals are also of great interest.

Against this backdrop, Deutsche Hypo has classified its stakeholders following internal consultations.

## Stakeholder dialogue

Companies need to identify the requirements of their interest groups (stakeholders) at an early stage so as to be able to react to them appropriately and rapidly. A systematic approach to dealing with stakeholders’ demands is a key element of Deutsche Hypo’s efforts to ensure its long-term business success. Deutsche Hypo therefore uses dialogue with various stakeholders to discuss sustainability-related issues while also gaining input for its sustainability-oriented actions and their further development. For a number of years now, the Bank has already been in contact with sustainability rating

agencies and has been actively monitoring their sustainability ratings. In addition, the company is in close contact with various stakeholders – such as the parent company NORD/LB, customers, employees and (potential) investors – on the topic of sustainability. The Bank has not yet directly surveyed stakeholders.

### Identification of aspects

All issues and topics clearly related to sustainability, such as all aspects of the GRI G4 standard, were used in identifying the aspects. The aspect list is subsequently expanded to include issues and topics that were of interest to stakeholders during the reporting year, such as enquiries made by and communication with rating agencies as part of the rating process, enquiries by external shareholders and/or the parent company (NORD/LB), and sustainability-relevant enquiries regarding the business model or individual transactions.

As part of this process, the following aspects were identified using the following logic:

Chart 2: Overview of aspects (in alphabetical order)

<p><b>Anti-corruption and fraud prevention</b> Implementation of standards and compliance</p>	<p><b>Integrity</b> Accountability, transparency and credibility</p>
<p><b>Compliance</b> Legal and tax compliance</p>	<p><b>Occupational health and safety</b> Maintaining employability, social responsibility</p>
<p><b>CO<sub>2</sub> reduction</b> Contribution to meeting Germany's national climate goals</p>	<p><b>Profitability</b> Ensuring long-term success</p>
<p><b>Data protection</b> Protection of customer and employee data</p>	<p><b>Promoting science and research</b> Scientific, research-related and social projects</p>
<p><b>Diversity</b> No discrimination, equal opportunities</p>	<p><b>Resource management</b> Environmental reporting, reduction of resources</p>
<p><b>Environmental impact of investment and loan portfolio</b> Attention to the environmental impact of business activities</p>	<p><b>Risk management</b> Goal to minimise ESG risks</p>
<p><b>Future viability</b> Innovation and managing demographic development</p>	<p><b>Sustainable products</b> Financing of real estate with particular relevance for social and economic benefits</p>
<p><b>Human rights</b> Commitment to preserving human rights along the entire value chain</p>	<p><b>Training and education</b> Maintenance and continuance of employability, lifelong learning</p>
	<p><b>Work-life balance</b> Employee satisfaction, flexitime</p>



## Classification

Prior to classifying aspects and stakeholders, the Bank examined the aspects fundamentally relevant to financial-sector companies and their impact. Aspects were also evaluated with a view to their fundamental applicability to companies that provide financial services, as compared to manufacturing companies, and as to how they should be evaluated due to any variance in business models. The supply chain, as well as the use and conservation of natural resources (water consumption and biodiversity), are generally considered to be among those aspects with a low impact.

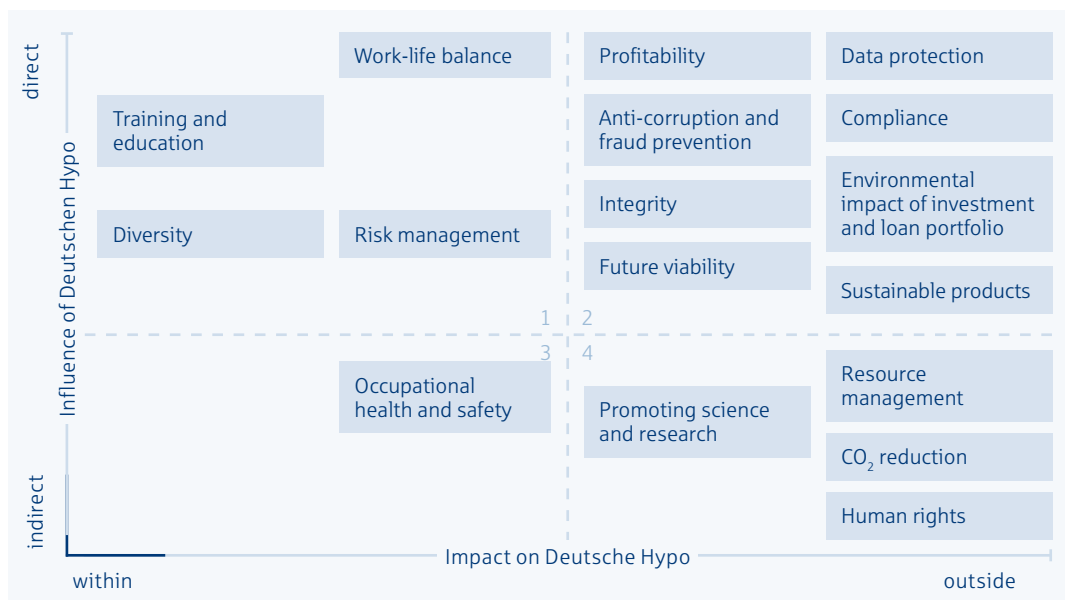
Due consideration was paid to the findings during the classification of aspects and stakeholders. The findings were also discussed throughout the Group.

## Classification of aspects

As part of the classification process, aspects were first determined with regard to their ability to exercise direct or indirect influence. Direct influence exists if the aspects are capable of directly influencing the Bank through action or avoidance and have a direct material impact. In contrast to direct influence, indirect influence exists if the Bank is able to address or avoid aspects that have complex implications for society or are so wide ranging that it is difficult or impossible to measure Deutsche Hypo's action or inaction with regard to said aspects.

A decision was also made as to whether the aspects have an impact within the Bank or outside the Bank (i. e. whether they tend to impact the company or society).

**Chart 3: Overview of material aspects and their impact**



For Deutsche Hypo, this means that the aspects in quadrants one and two initially receive higher classifications internally, as they lie within the Bank's direct sphere of influence.

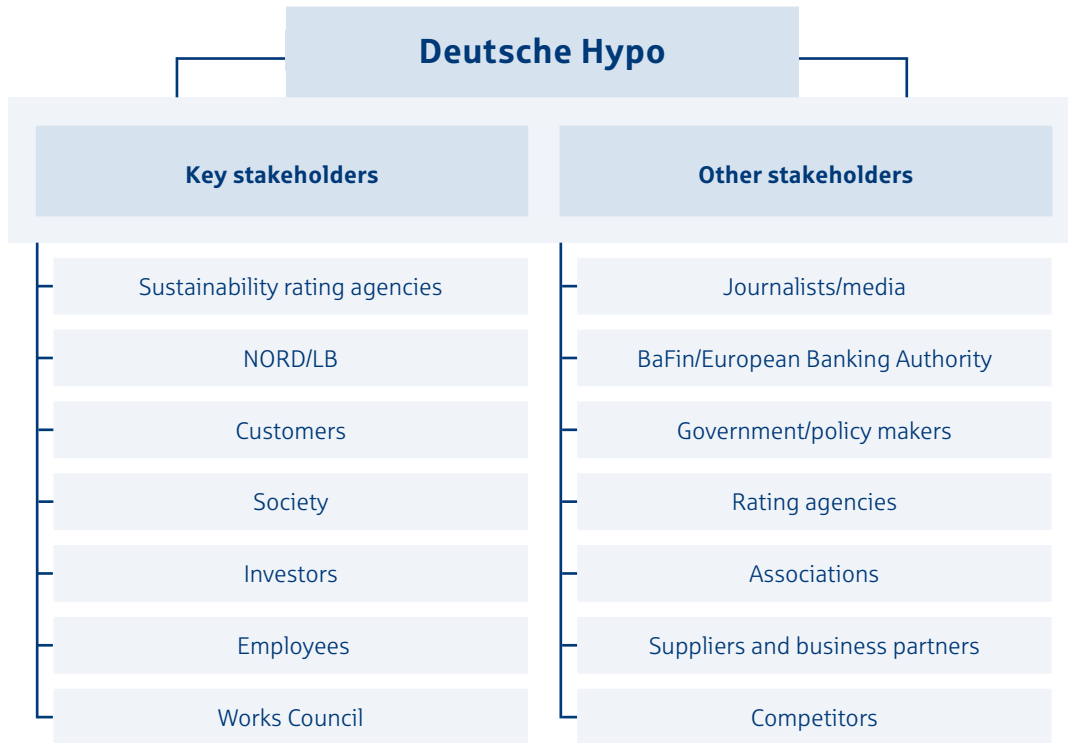
## Classification of stakeholders

In addition to aspects, consideration was also paid to all of the Bank's stakeholders. The Bank's stakeholders can be differentiated by the extent to which the aforementioned aspects influence the actions of the stakeholders or to which they are capable of influencing the aspects. Factors include guidance by and compliance with international and national environmental, social and governance (ESG) guidelines; the measurement of social value contribution; the implementation of ESG-oriented financing guidelines in core business areas; the minimisation of reputational risk by refusing to enter into ESG-critical business transactions; or generally transparent reporting with regard to all aspects related to corporate social responsibility (CSR).

Chart 4: Overview of aspects

Aspects	Compliance	Profitability	Future viability	Data protection	Anti-corruption and fraud prevention	Integrity	Risk management	Environmental impact of investment and loan portfolio	Training and education	Diversity	Occupational health and safety	Human rights	Sustainable products	Work-life balance	Resource management	Promoting science & research	CO <sub>2</sub> reduction	Number
<b>Stakeholders</b>																		
Sustainability rating agencies	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	17
NORD/LB	●	●	●	●	●	●	●	●	●	●	●				●			12
Customers	●	●	●	●	●	●	●	●					●					9
Society	●			●	●	●		●	●			●				●		8
Investors	●	●	●		●	●	●	●					●					8
Employees		●	●	●		●			●	●	●			●				8
Works Council		●	●	●					●	●	●	●		●				8
Journalists/media	●			●	●		●	●										5
BaFin/European Banking Authority	●	●	●			●	●											5
Government/policy makers	●			●	●							●						4
Rating agencies	●	●	●				●											4
Associations	●			●	●													3
Suppliers and business partners		●	●															2
Competitors		●	●															2
Number	10	10	10	9	8	7	7	6	5	4	4	4	3	3	2	2	1	

Chart 5: Overview of classification of key stakeholders and other stakeholders



The internal classification of aspects in combination with their significance from the stakeholders' perspective results in a focus on the following aspects:

- Compliance
- Profitability
- Future viability
- Data protection
- Anti-corruption and fraud prevention
- Integrity
- Risk management
- Environmental impact of investment and loan portfolio
- Training and education

Deutsche Hypo will focus on addressing these aspects in the years ahead. They will also be given priority within the annual sustainability program.

### Validation

The aspects and stakeholders have been validated as part of a three-step process. First, the findings of the materiality analysis were reviewed by the sustainability management. Then the findings were presented to the Deutsche Hypo sustainability committee. The Board of Managing Directors issued the final validation and approval of the materiality analysis at a Board of Managing Directors meeting in January 2017.

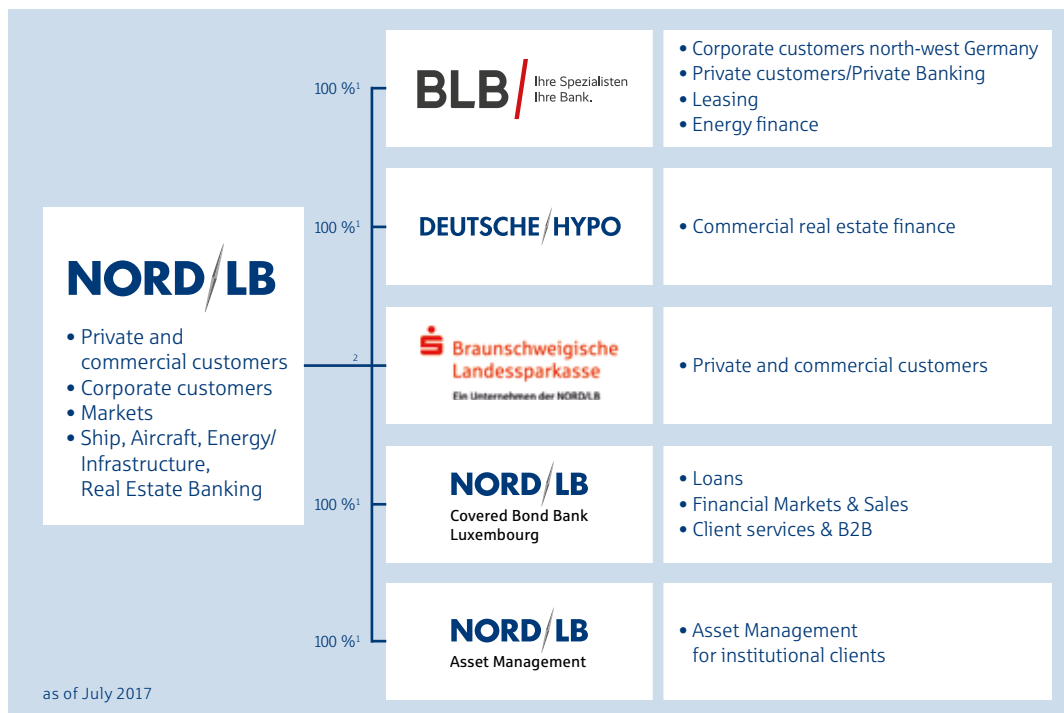
# GOVERNANCE

## Deutsche Hypo and its business model

Deutsche Hypo was founded in 1872, making it one of Germany's most renowned Pfandbrief banks. Its headquarters are located at Osterstraße 31, 30159 Hanover, Germany. Deutsche Hypo is registered with the Local Court (Amtsgericht) in Hanover under HRB 5602.

Deutsche Hypo is a strategic participatory interest of Norddeutsche Landesbank Girozentrale (Anstalt des öffentlichen Rechts), Hanover, Braunschweig, Magdeburg (NORD/LB), which holds 100 % of its shares. As a subsidiary, Deutsche Hypo is included in the consolidated financial statements of NORD/LB. There is a control and profit and loss transfer agreement with an unlimited term between Deutsche Hypo and NORD/LB. This agreement requires that Deutsche Hypo transfer its profits to NORD/LB. At the same time, NORD/LB is required to compensate for any possibly arising loss at Deutsche Hypo. The control and profit and loss transfer agreement means that there is a fiscal tax unit.

Chart 6: Structure of the NORD/LB Group

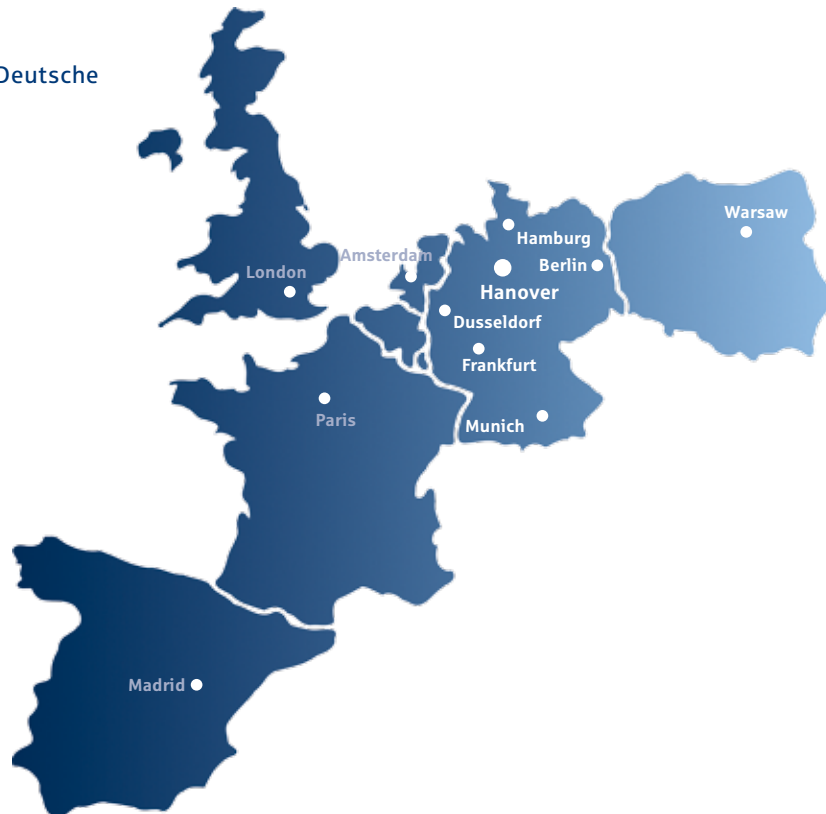


1 NORD/LB ensures that the companies mentioned in the Annual report 2015 note (75) and Bremer Landesbank (since 4 January 2017) are able to meet their obligations

2 Incorporated under public law with partial legal capacity

The headquarters of Deutsche Hypo are in Hanover. It also has offices in Hamburg, Frankfurt and Munich, as well as in Amsterdam, London, Paris and Warsaw. Offices are planned for locations in Berlin and Madrid. A branch in Düsseldorf is currently under consideration. Deutsche Hypo is a German real estate bank with a European focus and supports its customers in the strategic target markets of

Chart 7: Overview of Deutsche Hypo's offices



Germany, the UK, France, Benelux, Spain and Poland as a professional and strategic finance partner.

As a subsidiary, Deutsche Hypo is the Group's centre of competence for the commercial real estate finance business. This also includes being the main issuer of mortgage Pfandbriefe within the NORD/LB Group. In addition to this, the Bank funds itself by issuing unsecured bonds. The goal is to have the ability to fund at competitive conditions at any time. This plan is achieved through the quality of the cover pools and the associated ratings of the Pfandbriefe, and through the credit rating of the Bank for the area of unsecured bonds.

Deutsche Hypo's main business activities can be divided into two business areas. Commercial real estate finance is the core business area. It bundles all the financing of customers that primarily generate their cash flow from real estate or make significant real estate investments on a regular basis. Commercial real estate finance generates over 80 % of the Bank's total net interest and net commission income. In the capital market business, Deutsche Hypo bundles its business in securities, money markets, derivatives with banks as well as funding. Furthermore, this area handles the public sector finance business. For some years now, the Bank has been reducing this portfolio.

For information on G4-9 and G4-EC1, please consult the corresponding statements made in the Bank's financial reporting.

For information on risk management, please consult the financial statements starting on page 47 of the Bank's annual report for 2016.

## Corporate bodies

Deutsche Hypo's corporate bodies are the Board of Managing Directors and the Supervisory Board. The Board of Managing Directors is responsible for the Bank's management. It also represents the company in and out of court. Between 1 January 2016 and 31 March 2017, the Deutsche Hypo Board of Managing Directors consisted of the following members:

### Andreas Pohl

Speaker of the Board of Managing Directors until 30 June 2016

Chairman of the Board of Managing Directors since 1 July 2016

### Sabine Barthauer

Member of the Board of Managing Directors since 17 August 2016

### Andreas Rehfus

Member of the Board of Managing Directors

Please see the Bank's website for more information about the current Board of Managing Directors members' responsibilities and their CVs.

The Supervisory Board advises the Board of Managing Directors and monitors its management activities. Deutsche Hypo's Supervisory Board consists of six members, of whom three are representatives of the parent company, NORD/LB. The Chairman of the Supervisory Board is the Chairman of the Board of Management of NORD/LB. Please consult Deutsche Hypo's financial reporting for more information about the composition of the Supervisory Board and its committees.

## Business strategy

The business model of Deutsche Hypo and its parent company, NORD/LB, is based on compliance with all material legal guidelines. Under Section 25a (1) of the German Banking Act (Kreditwesengesetz – KWG), financial institutions must have a proper business organisation that ensures compliance with the legal provisions to be observed by the institution and with the business-related requirements and necessities incumbent upon it. The basis documented in Section 25a KWG is specified in the Minimum Requirements for Risk Management (MaRisk AT 4.2), according to which management has to define a sustainable business strategy and a consistent risk strategy. In accordance with the respective statutory requirements, Deutsche Hypo has the corresponding institution-specific strategy documents.

In accordance with the Group business strategy, Deutsche Hypo's strategy is reviewed at least once a year, adjusted as necessary, discussed and agreed with NORD/LB and the Deutsche Hypo Supervisory Board, presented to NORD/LB for the parent company's reference, and subsequently subjected to the necessary analysis of variances and causes. Deutsche Hypo's strategy manifests itself in its medium-term planning, in which the earnings, risk and market growth targets have an impact on performance indicators through the application of premisses. It also includes the impact of planned market activities and personnel and organisational measures, as well as balance sheet, capital and funding planning. Likewise, a risk limit, which also counteracts potential income concentration, is in place.

The business, risk and IT strategies are developed consistently in relation to each other and decided on by the Board of Managing Directors. They form the framework for the strategic focus of Deutsche Hypo. The business strategy lists Deutsche Hypo's strategic business areas and describes their strategies (business area strategies) as based on a thorough analysis of the market, the macroeconomically relevant benchmarks, the competitors, the regulatory environment and other premisses that are also the basis for the medium-term planning. The internal and external influences taken into account are listed in the appendix. The business strategy is implemented by way of the business model and the individual business areas in a manner consistent with the risk and IT strategy.

## Strategic focus of the business model

In everything it does, Deutsche Hypo is guided by its corporate principles:

"Deutsche Hypo – real estate specialist of the NORD/LB Group and Pfandbrief bank since 1872. We work together to build an organisation based on clear architecture, open doors, direct communication and a high level of transparency. Our actions towards our customers, owners and each other are guided in equal measure by the following aims:

- We are a long-term, reliable partner that responds rapidly and individually
- We are an international family
- We embody tradition and modernity
- We speak openly and treat each other with fairness and respect
- We use our freedom to achieve common goals
- We act with enthusiasm for the success of our customers and our bank."

In addition, Deutsche Hypo has introduced managerial principles that round out the corporate principles. They are:

- We, the members of Deutsche Hypo's management staff, ...
- are positive role models and provide guidance,
- take on responsibility and delegate tasks,
- set appropriate goals and build lasting success,
- make decisions and implement them consistently,
- communicate openly and foster trust,
- encourage our employees and acknowledge performance, and
- solve conflicts fairly and employ constructive criticism.

The Bank's main corporate goals are:

- to secure and increase corporate value, profitability and profit transfer over the long term through appropriate return on equity for the Bank and the Group, among other things
- to strengthen the business model by diversifying the earnings base and expanding expertise by increasing income not related to risk-weighted assets (RWA) and by limiting risk through a granular portfolio, among other measures
- to optimally meet customer needs
- to ensure funding and liquidity at all times
- to promote employee performance and loyalty

To do so, the Bank makes use of a business model that focuses primarily on real estate financing. Funding takes place primarily by issuing Mortgage Pfandbriefe in accordance with the German Pfandbrief Act (Pfandbriefgesetz). These Mortgage Pfandbriefe are based on a stable cover pool. Due to the limits on the recognition of collateral, the Bank is also forced to fund itself through unsecured issues. Financial services round out the product portfolio. In addition, the Bank strives to further promote cost-conscious and efficient business operations as well as the use of synergies resulting from the group of affiliated companies.

With regard to new real estate financing business, the Bank hopes to be perceived as an attractive competitor with interesting finance offers. The Bank focuses on clear customer segmentation and portfolio management in Germany and abroad. It strives for the selective and risk-appropriate strengthening of its market position in Germany and abroad, generally through attracting active business and arranging transactions.

## **Ethics, integrity and lawful conduct**

Corrupt or unethical conduct, as well as violations of the law by individual persons or companies, harms society and its members in many ways. As a member of society, Deutsche Hypo sees avoiding and preventing this type of harm to the best of its ability as an important duty.

At the same time, its reputation and the trust of customers and business partners are the Bank's greatest asset and play a pivotal role in its success. Violations of the law and unethical conduct have the potential to lastingly jeopardise this success. Compliance with the law and statutory requirements in the course of business dealings is therefore of the essence, as is conduct in accordance with ethical values.

Deutsche Hypo combines the Bank's efforts to comply with the law and statutory requirements with ethically correct conduct, thereby linking its success as a business with social responsibility. The Bank has therefore published a ethics principles, a corresponding policy for gifts and benefits and the employee principles which are available for review by all employees in German and English in the organisation manual. These documents create a framework for fair conduct guided by integrity and values. They are also binding for members of the Board of Managing Directors, managers and employees.

Deutsche Hypo is internationally active and provides products and services in various European markets. These activities are therefore subject to a wide range of country-specific and international laws as well as national practices. In principle, the stricter provisions are considered applicable whenever requirements vary or whenever rules are more comprehensive.

Every single employee should act in the interests of Deutsche Hypo by complying with applicable laws and environmental protection measures. Legal prohibitions and obligations must be strictly observed, even if doing so may appear inexpedient or unfavourable from a business perspective in the eyes of an individual person or the company. When in doubt, individuals and the company should act in compliance with the law.



## Current challenges faced by the financial services industry

In times of rising financial crime and increasingly strict regulation, banks around the world face particular challenges and threats in the financial instruments business. They must use the greatest caution and prudence in their dealings with customers and themselves, as well as in the development and issue of financial instruments, to guard the trust of their customers and market participants in the proper management of the banking business and to protect themselves and their employees from material and immaterial damage.

Banks are also required to implement all rules and regulations under the law or other requirements, integrate them into standards, and both ensure and monitor their compliance. The complexity of banking services and the associated products, structures, processes and systems means that a wide range of rules and regulations are applicable for Deutsche Hypo. They include the rules and regulations of traditional banking supervision law as well as the provisions of German, European and international civil and tax law. The risk for the institution associated with inadequately reacting to applicable material regulatory changes increases with a company's size and complexity. The financial repercussions (e.g. from fines and liability-related penalties) and the consequences of damage to reputation can be substantial for the bank in question.

Furthermore, banks are subject to the inherent danger of being misused for the purposes of money laundering and terrorism financing. The anonymity of business relationships and transactions is subject to abuse. Criminals are using a growing range of methods to attempt to launder funds and assets from illegal activities such as corruption, robbery, extortion, the drugs trade, arms trafficking and tax evasion through payment systems, new financial products and technologies so as to illicitly channel them into the legal financial and business sector by disguising their true origin. Terrorists are also trying to provide and acquire legal and illegal funds through banks with the aim of financing terror activities.

There is no absolute way of ensuring that a financial services provider and its employees act in compliance with rules and regulations at all times and to the full extent in all of its business activities while also preventing criminal activity. However, there are appropriate strategies and safety measures to minimise risk. At Deutsche Hypo, the Board of Managing Directors sets the main rules and principles for legally correct and responsible conduct by executives and all employees in the ethics principles, the policy for gifts and benefits and the employee principles.

In addition, further general guidelines set down rules and principles that are designed to ensure consistent standards at NORD/LB Group companies.

This gives employees the certainty that they work for a company of integrity that complies with the law, for which they are happy to work without any ethical concerns. At the same time, integrity and compliance with the law safeguards both the Bank's future viability and their jobs.

## Compliance management system

Deutsche Hypo has a duty to ensure responsible management with clearly defined ethical principles that embodies and fosters conduct shaped by integrity and compliance with the law within the Bank. Throughout the Group, NORD/LB has set up a compliance management system guided by the IDW PS 980 standard. The NORD/LB Group is dedicated to protecting society by striving to optimally prevent criminal activity through a number of measures, many of which are part of its compliance management system. Within this context, the Extended Group Managing Board of the NORD/LB Group requires the employees of all Group companies to be “100 % compliant” and has underpinned this requirement through its corporate compliance policy.

The ethics principles, the policy for gifts and benefits and the employee principles that have been published by Deutsche Hypo express a clear commitment to avoiding conflicts of interests, combating corruption and bribery, preventing money laundering and terrorism financing, and steering clear of other criminal actions.

The compliance officer and the NORD/LB compliance organisation are responsible for regulation; compliance; preventing money laundering, terrorism financing and other criminal actions (fraud). Responsibilities include advising divisions on the implementation of and compliance with all legal and supervisory rules and obligations throughout the entire Bank, as well as the consistent implementation and ongoing monitoring of processes within the Bank. The compliance with financial sanctions and embargos is handled at the Compliance and Security department of Deutsche Hypo.

The NORD/LB Group's compliance departments identify all rules and regulations relevant from a banking supervision perspective in order to regularly inform the Board of Managing Directors and the appropriate divisions of the Bank about new and/or amended laws and provisions. The compliance officer and the anti-money-laundering officer (including fraud) are registered with BaFin or its comparable foreign counterparts.

In addition, appropriate preventive measures are defined as part of the risk management system. The Bank's business- and customer-related security mechanisms are designed to prevent entering into or continuing any business relationships that support white-collar crime or encourage anonymous transactions. Indications of suspicious transactions are reported as soon as they arise. Web-based learning programs, regular classroom training sessions, newsletters and memos are tools geared towards sensitising employees to this matter.

## Managing conflicts of interests

Conflicts of interest may arise when several individuals are interested in seizing certain business opportunities or when a party is only able to realise its own interests at the expense of another party. This is fundamentally possible in relationships between the Bank or its employees and customers or suppliers, between the Bank and its employees, and between customers.

In consideration of neutrality and independence, Deutsche Hypo's Board of Managing Directors has tasked the compliance department with monitoring and preventing conflicts of interest with the aim of justifying and preserving the trust of customers, employees and the public in the Bank's performance potential and integrity.

Compliance ensures the observance of legal guidelines on avoiding conflicts of interest and the strict separation of various divisions with access to sensitive customer data and information (“Chinese walls”), as well as the rule that sensitive information requires the prior approval of the respective executive and compliance before it may be shared with other divisions.

Employees are an important pillar in avoiding conflicts of interest. All employees of Deutsche Hypo are obliged to use their full expertise in providing their services with the utmost care and conscientiousness. In the event of unavoidable conflicts of interest, which may arise due to differences in knowledge between the customer and the Bank, care is taken to ensure the transparent handling of customer requests while acting in the best interests of the customer to the appropriate extent. In this context, the compliance departments ensure that recommendations by employees are submitted honestly, fairly and in accordance with all statutory provisions in conjunction with appropriate information about risks.

Furthermore, all employees are instructed to avoid situations in which their personal interests may clash with those of the banks or even give the impression of a potential conflict. Compliance has defined the remaining notification and approval processes in the principles applicable to employees.

One example of a potential conflict of interest would be advising and supporting a customer to whom the employee has both a professional and private relationship. In the best interests of all involved, such situations should be avoided whenever possible.

For information on G4-41, please consult the corresponding statements made in the Bank’s financial reporting.

## Preventing insider trading

Through their work, employees of Deutsche Hypo may be privy to information that is not available to others and could be used for their own personal gain. This situation poses a conflict of interest. Insider trading law is designed to ensure the ability of markets for financial instruments to function while giving investors the certainty that they are treated fairly and protected from the inappropriate use of information. Insider information is any accurate information about facts not known to the public that relate to one or more issuers of insider securities, or to the insider securities themselves, and have the potential to materially influence the stock exchange or market price of the insider securities should they become public.

Employees and members of management or supervisory bodies are prohibited from using insider knowledge to buy or sell insider securities for their own account or on behalf of third parties. Furthermore, they may not share insider information with third parties without permission, make such information available to them in any way or use it to make investment recommendations. This includes sharing information within the Bank. Sharing information with other members of staff is only allowed if the information is required for them to properly perform their duties and if said employees are formally authorised to receive such information. In order to protect for personal sanctions in particular, the Board of Managing Directors decided that proprietary transactions for Members of the Board of Managing Directors and the management are no longer permissible.

The compliance department will additionally record the names of employees who have access to a listed company's insider information, either in the usual course of their duties or for specific special reasons, in an insider list and will monitor them separately.

## Prevention of money laundering and terrorism financing

Targeted efforts to combat money laundering, organised crime and international terrorism must also take financial aspects into account and make the investment of proceeds from criminal activities and cash flows intended to finance terrorist activities more difficult. Preventing money laundering and terrorism financing therefore has high priority at Deutsche Hypo.

Deutsche Hypo has outsourced responsibility for the prevention of money laundering, terror financing and other criminal actions (fraud) to NORD/LB. The corporate office is headed by the compliance officer, who has been registered with BaFin as the anti-money-laundering officer (including fraud). In addition to preventing money laundering, terrorism financing and other criminal actions (fraud), the corporate office is also responsible for compliance with financial sanctions and embargoes. Money laundering prevention and fraud compliance monitor adherence to the corresponding rules and regulations. They report to the Board of Managing Directors and the internal audit department.

Deutsche Hypo pursues a risk-oriented know-your-customer business policy in line with applicable laws related, for example, to the German Money Laundering Act (Geldwäschegesetz – GwG) and regulatory guidelines. The identification of customers through official documents and other relevant information plays a pivotal role in the Bank's efforts to combat money laundering and terrorism financing. A potential business relationship or the completion of a transaction must be abandoned if reasonable doubts arise in relation to the customer, the source of funds or the type of transaction.

Efforts to prevent money laundering and terrorism financing are built on an annual threat analysis that is used to derive specific measures, including the development of a risk-oriented monitoring plan, the creation of a training concept and steps to support the implementation of the know-your-customer principle. Furthermore, the system is checked to review all customers and transactions with a view to:

- Suspicions of money laundering and terrorism financing
- Embargoes and financial sanctions
- Politically exposed persons

Suspicions must be shared with the anti-money-laundering officer, who is to assess their relevance. The anti-money-laundering officer is also available to answer any related questions.

## Preventing other criminal actions (fraud)

Preventing corruption and other criminal actions (fraud) is also of high priority to Deutsche Hypo. To protect the company, its reputation and its assets, the Bank actively and systematically takes appropriate preventive measures designed to suppress all forms of economic crime and other serious or long-term violations of applicable laws and regulations. In its efforts, Deutsche Hypo is guided by the statutory provisions for preventing other criminal actions (KWG, GwG and standards promulgated by

the German Banking Industry Committee or comparable international associations). The Board of Managing Directors has tasked the anti-money-laundering officers with their operative implementation.

As part of a Group-wide threat analysis, risk scenarios regarding corruption and other criminal actions are reviewed on a divisional basis within the meaning of Section 25h (1) clause 1 KWG. Their criticality is evaluated using external statistics and internal opinions. This analysis is compared with the existing preventive measures to determine the residual risk and develop further preventive measures. The Board of Managing Directors is informed of the key findings annually as part of the risk report.

The divisions of the Bank as a whole were also surveyed with regard to fundamental fraud relevance as part of the integrated risk assessment. As this methodology is now used throughout the entire NORD/LB Group to assess threats, the findings are comparable on a Group-wide basis.

Thanks to the comprehensive preventive measures, there were no violations or liabilities with regard to other criminal actions in 2016.

## Prevention of corruption and bribery

Deutsche Hypo tolerates neither corruption nor bribery in its business dealings. In addition to the respective legal provisions, which require strict compliance, the Bank also meets the standards set out in the UN Global Compact, the tenth principle of which is: "Anti-corruption: Businesses should work against corruption in all its forms, including extortion and bribery."

The ethics principles and the policy for gifts and benefits contain clear rules on the prevention of corruption and bribery, as well as on unduly accepting or granting privileges and advantages. Additional internal guidelines define the extent to which accepting or giving invitations and gifts are permissible, as well as the conditions for calculating hospitality expenses and receiving compensation.

The compliance department monitors conduct to ensure compliance with rules and regulations. Accompanying training on preventing conflicts of interest in the event of invitations and gifts serve to ensure proper conduct.

## Integrity test

Im When making a decision to do business with potential customers, Deutsche Hypo conducts a separate integrity test before entering into loan or trading transactions and business relationships above a certain predetermined volume with agents, brokers, suppliers or service providers.

The Bank's business- and customer-related security mechanisms are designed to prevent entering into or continuing any business relationships related, for example, to money laundering, terrorism financing, other criminal actions or relevant sanction and embargo regulations.

This integrity test is based on available information (e.g. internet research, enquiries with institutions and offices, SCHUFA scores).

Fraud prevention management measures are taken if the test results in indications that the potential business partner has, for example, faced criminal charges or been fined by an official regulatory agency. Accordingly, the available information is subsequently to be checked for reputational and business risks in particular, followed by a vote on the business relationship and any necessary adjustments to the customer risk.

## Whistle-blower system and ombudsman

Deutsche Hypo is legally obliged to take appropriate protective measures against criminal actions committed internally or externally. Effective protection against violations and liabilities, as well as the prevention of violations and liabilities resulting from such actions, is a key component of the Bank's risk management system. The Bank takes all necessary steps to prevent such actions, or at least to uncover them as quickly as possible, while keeping risks as low as possible. Deutsche Hypo views any attempt at criminal actions and dishonest conduct as a serious and intolerable offence.

Deutsche Hypo has set up a whistle-blower system to help combat criminal and illegal activity, among other things. With this aim in mind, an external ombudsman has been engaged. All employees, members of corporate bodies, customers and business partners may contact the ombudsman, who will treat their enquiry confidentially. They may also remain anonymous if they choose to do so. This ensures that whistle-blowers need not fear any negative consequences, even if their suspicion turns out to have been unjustified.

The ombudsman is a lawyer whose job it is to facilitate communication and the exchange of information between the Bank and the whistle-blower while maintaining the whistle-blower's anonymity. The ombudsman first reviews any tips he receives before passing them on to the appropriate contact at the Bank, who is responsible for taking the necessary internal steps. Furthermore, the ombudsman may advise whistle-blowers should any problems arise, help them get out of their involvement in criminal activity and provide other support. Because the ombudsman is obliged to maintain professional confidentiality and respect the right to refuse to give evidence, whistle-blowers remain anonymous to the Bank. Whistle-blowers also do not incur any costs when they contact the ombudsman; the expenses are covered by the Bank.

Employees receive information about the ombudsman as well as his or her duties, responsibilities and availability in compliance training courses and internal newsletters. In appointing an ombudsman, Deutsche Hypo is guided by the provisions of the German Corporate Governance Code. All employees are also able to report relevant issues to their supervisors and the appropriate Board of Managing Directors member, as well as to the HR, legal, internal audit and compliance departments.

Regardless of any reports it may receive, the compliance department has extensive authorisation to critically review legally and ethically relevant matters, either at regular intervals (e.g. for reporting obligations) or on a sample basis in the event of specific occurrences. The investigative mechanisms are based on the situation.

## Data protection

Bank employees come into contact with a wide range of personal data. Protecting this data and the trust associated with its provision is one of a bank's most important responsibilities. Accordingly, dealing with customer data in a confidential and sensitive manner enjoys top priority at Deutsche Hypo, and the statutory data protection obligations and provisions to be observed are of particular importance. This applies to the processing of personal employee and customer data, as well as to personal data relating to suppliers, consultants and other contractual partners. Strict compliance with banking secrecy rules is essential. Data and information may only be used within the framework of their strictly intended purposes and legal provisions.

Deutsche Hypo is required to observe the rules and regulations set out in the Federal Data Protection Act (Bundesdatenschutzgesetz – BDSG) and other data protection laws. The statutory data protection regulations apply to all natural persons, especially the Bank's customers and employees. In addition to the proper handling of protected personal information, data protection regulations also cover the monitoring of compliance with the rights of the persons affected by automated data processing and the fundamental obligations of specific authorised representatives with access to personal data within the Bank.

Every employee is responsible for compliance with data protection regulations. At the Bank, all internal and external employees who deal with personal data are obliged to comply with Section 5 BDSG. This obligation continues to apply after they cease working for the company. Deutsche Hypo's data protection rules are recorded in its data protection policies, which are valid throughout the respective banks.

A data protection officer is in charge of monitoring, providing advice and conducting regular training to sensitise employees and ensure compliance with data protection requirements. To ensure professional independence from all divisions to be monitored, the data protection officer answers directly to the Board of Managing Directors, which is generally responsible for this function and monitors its effectiveness. He or she reports at regular intervals or ad hoc directly to the Board of Managing Directors and to the appropriate Member of the Board of Managing Directors on an ongoing basis as part of day-to-day business.

Annual Group-wide threat analyses on the basis of risk-oriented audit plans are performed to ensure and monitor compliance with all data-protection-relevant standards as well as their suitability and effectiveness. Deutsche Hypo's audit plans are agreed with the NORD/LB Group's data protection officer, making it possible to conduct the audits simultaneously and report the findings to the full Board of Management.

Data protection incidents or complaints that have been identified are analysed, and solutions – along with the corresponding preventive measures – are developed. No data protection incidents became known during the reporting period that would have forced Deutsche Hypo, the controller, to file a report in accordance with Section 42a BDSG.

## Training on compliance-relevant issues

Provisions regarding planning and conducting targeted employee training and/or supporting operating departments in conducting their own training sessions are anchored in the NORD/LB Group corporate compliance policy. The goal is to increase employee understanding of compliance-relevant issues and thereby improve sensitivity to them in day-to-day operations. Generally speaking, it is necessary to divide the training for which the compliance department is responsible and, in certain cases, conducts into regular, mandatory training sessions and ad hoc measures. The training sessions include training mandated by law on the basis of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the GWG and the BDSG, as well as MaRisk and the standards based thereon, such as training related to information-security-relevant issues and topics. This applies accordingly for comparable standards for rules and regulations relevant for foreign branches.

The training sessions mandated by law take place regularly in the form of web-based training (WBT) and/or in the classroom. Ad hoc training and sensitisation sessions are also conducted.

The main objectives of the training and sensitisation measures are:

- to foster a (consistent) basic understanding of compliance-relevant issues
- to raise security awareness among all employees
- to regularly sensitise employees to dangers and risks. In particular, the training measures aim to make clear the extent to which the individual may be personally affected by or held (jointly) liable for (wilful) dishonest conduct by staff and/or third parties
- to explain and sensitise employees to the whistle-blower system (ombudsman) and the ways to make use of it

The training sessions and the divisions to be addressed are specified across disciplines.



# SUSTAINABILITY AT DEUTSCHE HYPO

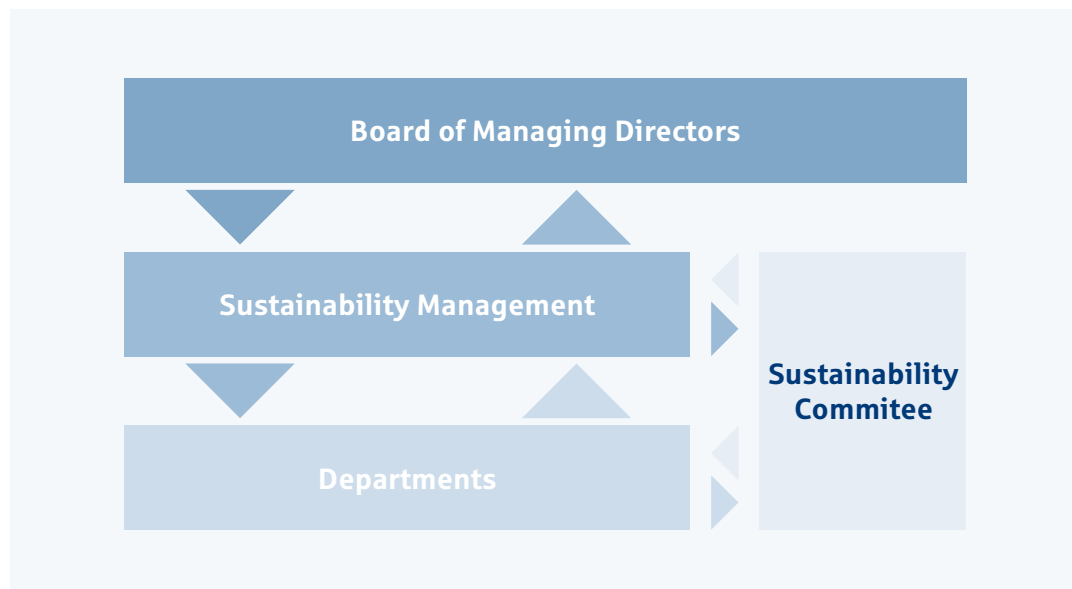
## Sustainability management

Deutsche Hypo's Board of Managing Directors has made professionalising sustainability management at the Bank one of its main objectives. The sustainability management team, which is part of the Communications and Board Staff department and is central to the activities of this business area, is responsible for making this goal a reality. Implementing sustainability standards, coordinating sustainability measures and enhancing the sustainability strategy are among the sustainability management team's responsibilities. The sustainability management team is supported by a sustainability committee that comprises representatives of particularly sustainability-relevant company departments. The members come from the following departments: Communications and Board Staff, Domestic Property Finance, Credit Department and Property Valuation, Credit Risk Management, Organisation and IT, Human Resources and Legal, Treasury, Corporate Development and Controlling.

The sustainability committee supports the sustainability management team in identifying sustainability issues. It also develops goals and measures, which it recommends to the Board of Managing Directors for implementation. At the same time, the members support the implementation of the measures in their respective divisions. Since it was set up, the sustainability committee has met at least once a quarter to discuss and work on sustainability issues for the attention of the Bank as a whole. In addition, regular bilateral discussions in which new issues can be jointly addressed are held between the individual divisions and the sustainability management team. The ideas are then recommended to the Board of Managing Directors for implementation as needed. Furthermore, the sustainability management team is in regular contact with relevant sustainability rating agencies and communicates information about their standards and rating criteria within the company.

The following chart provides an overview of the organisational structure, functions and responsibilities.

**Chart 8: Organisational structure of sustainability management**



## Sustainability strategy

### Image and vision

For Deutsche Hypo, sustainability is first and foremost a question of attitude: the direct and indirect support for sustainable development through its own actions as a company is part of its image and vision.

Deutsche Hypo believes firmly that many aspects of global change bear opportunities and risks for itself, as well as for its customers and investors, and therefore have an influence on its business activities. The sustainability strategy addresses the central aspects of global change for Deutsche Hypo, its clients and its investors, and offers insights into ways to efficiently seize the opportunities that arise while responsibly managing risks. Supported by this strategy, the Bank pursues the following fundamental focus:

### Strategic focus:

To a varying extent, and with varying urgency, Deutsche Hypo's customers and investors, as well as the Bank itself, are being forced to pay close attention to long-term trends with regard to issues such as climate change, demographic developments, urbanisation and commodity scarcity. The task at hand for them is to critically examine their proven business models on a regular basis and develop solutions from an early stage in view of the complex impact that these trends have. Deutsche Hypo's employees support customers, investors and the Bank in taking the effects of global change into account in their decisions, thereby making a contribution to sustainable development.

Through a systematic approach with regard to sustainability, Deutsche Hypo ensures that the necessary aspects of sustainability are able to be taken into account in its business activities from the Bank's overall perspective, both in its active and passive business dealings:

- Transactions that clearly violate basic principles of sustainable development – such as those in connection with controversial weapons or pornography, to name a few examples – are identified on the basis of exclusion criteria and turned down.
- A framework of sustainability guidelines defines the relationship between the individual transaction and the specific sustainability standards that Deutsche Hypo deems relevant for the transaction in question, such as the German Sustainability Code or the UN Global Compact, enabling targeted and individual sustainability management.

Deutsche Hypo and its employees see themselves first and foremost as supporters of customers and investors whose job it is to enable them to place a stronger focus on sustainable development over the course of their business activities and investment decisions.

Since 2014, Deutsche Hypo has regularly accounted for its performance in implementing its sustainability strategy. It does so as part of a sustainability reporting process that is guided by the standards of the German Sustainability Code. In accounting for its performance, Deutsche Hypo reports on how its work is benefiting customers, investors and society, taking into account various aspects of its business activities, such as the direct and indirect contributions to sustainability generated for customers, investors and society by Deutsche Hypo's core business areas, as well as the contributions made by activities designed to complement the Bank's core business.

### **Focal points and specific goals:**

Deutsche Hypo's main goal is to receive a prime sustainability rating and improve its sustainability every year. To do so, it compiles sub-targets annually in a sustainability programme, promotes measures and subsequently reviews them to determine the extent to which the targets have been met. Deutsche Hypo works toward the following focal points in its sustainability fields of action.

### **Governance**

Deutsche Hypo has defined its sustainability management approach and takes steps to develop it further, including the constant review of its strategic sustainability focus through the established sustainability management team and the sustainability committee, whose work supports the Board of Managing Directors.

To gain input with regard to the focus of sustainability management, Deutsche Hypo engages in dialogue with the relevant stakeholder groups, thereby ensuring that its business activities are in line with stakeholder interests. Doing so ensures the success of the company and its competitiveness in the long term.

The findings of this stakeholder dialogue are incorporated into the Bank's sustainability programmes, giving Deutsche Hypo input on where its sustainability goals should be headed.

### **Customers and investors**

Deutsche Hypo has anchored aspects of sustainability in all relevant business areas, thereby ensuring an approach to doing business that includes both economic and ESG aspects for the benefit of customers and investors.

In its business activities, Deutsche Hypo therefore takes economic, ecological and social aspects into account with the aim of improving customer and investor awareness of sustainable positioning on the whole. A lastingly successful customer strengthens the Bank's risk position and that of the NORD/LB Group.

### **Employees**

Its employees are the future of Deutsche Hypo and ensure the company's long-term success. The Bank therefore has a key responsibility towards its employees to foster the conditions for their optimal development and to promote diversity. One area of focus is the promotion of gender equality in professional and managerial tasks. Right now, this means that Deutsche Hypo has set itself the goal of constantly increasing the share of women in management positions.

Among other measures, various seminars are offered to support employees in their professional and personal development. Through a range of information and educational opportunities, Deutsche Hypo supports its employees in gaining knowledge and forming an opinion about corporate sustainability and makes it possible for them to apply this expertise.

### **Society**

In its role as a corporate citizen, Deutsche Hypo is involved in projects that focus on society. Deutsche Hypo helps fund medical cancer research and welcomes volunteer work by its employees.

Throughout all its activities, Deutsche Hypo focuses its charitable contributions on projects that benefit both society and the Bank.

### **Environment**

Deutsche Hypo strives to systematically lessen the environmental impact of its business activities. Cutting the consumption of resources and energy, as well as reducing emissions, is intended to consistently raise the Bank's ecological efficiency. Special attention is paid to energy efficiency

## **The ten principles of the UN Global Compact**

Deutsche Hypo is not a member of the UN Global Compact. However, as a NORD/LB Group company, it feels it has a commitment to its principles of sustainable development and responsibility, and uses the compact as guidance. For Deutsche Hypo, taking into account the ten internationally recognised principles of the UN Global Compact in the aspects of human rights, labour, environment and anti-corruption is an essential element of its responsibility as a financial services provider to customers and employees, as well as to society in its role as a corporate citizen.

In the interest of contributing to a sustainable approach to doing business, Deutsche Hypo encourages its suppliers and service providers to act according to the same ecological and social principles and standards. The ten principles of the UN Global Compact are:

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.
- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.
- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

## **Further memberships and commitments**

- As a subsidiary of NORD/LB, a signatory of the UNEP declaration, Deutsche Hypo is also guided by the Finance Initiative and has thereby stated its commitment to sustainable development, long-sighted environmental management and open communication on the promotion of environmental aspects.
- Through its membership in the German Property Federation (ZIA), Deutsche Hypo is dedicated to upholding the real estate industry's voluntary commitment outlined in the ZIA's guiding document on sustainability in the property sector in its business activities.

- Deutsche Hypo drafts its annual sustainability report in accordance with the GRI guidelines.
- Deutsche Hypo has affirmed its commitment to the German Sustainability Code, a transparency standard for corporate sustainability management.
- By signing the Charta der Vielfalt (diversity charter), Deutsche Hypo strives to promote the recognition, appreciation and inclusion of diversity in corporate culture in Germany – regardless of gender, nationality, ethnic origin, religion or world view, disability, age, sexual orientation or identity.

## ESG policies

Further policies designed to manage business activity with a view to the growing significance of environmental, social and governance (ESG) aspects are in place in addition to the applicable guidelines on the implementation of and compliance with the provisions set out in “conventional” banking supervision law, as well as additional German, European and international provisions under tax law and civil law.

The ESG policies supplement existing policies and principles relating to strategy and governance, thereby enabling an integrated portfolio management approach. The Board of Managing Directors has approved all ESG policies, making them binding for all employees. No external audit has been or will be performed.

The ESG policies are geared towards avoiding ESG risks, among other things. Deutsche Hypo defines ESG risks as risks that may arise due to company management and/or social or ecological aspects related to a business transaction or relationship. ESG risks are classed as operational risks.

As part of its business activities, Deutsche Hypo assesses certain exposures and commitments according to ESG criteria to identify business and reputational risks in the best interests of customers and the Bank at an early stage. Like other risks, potential ESG risks are evaluated as part of the lending process and are factored into the final vote on the transaction once they become apparent or arise.

The evaluation of risk potential is based on employees’ expertise and experience, the ESG policies and the guidelines set out in the underlying rules and regulations. If necessary, unclear business transactions and/or their potential impact are presented to the reputation committee for further review.

Deutsche Hypo has set up a reputation committee to optimally manage reputational risks related to real estate financing. The committee is convened if information becomes known that could be potentially relevant to the company’s reputation and could lead or has led to substantial damage to the Bank’s business and/or image. The reputation committee is made up of the heads of Human Resources and Legal, Credit Risk Management, Communications and Board Staff and the respective market division, in addition to a compliance officer.

## Policies for Deutsche Hypo

### Business activities

By way of this policy, Deutsche Hypo complies with the three principles of the UN Global Compact that concern the consideration of environmental aspects in the course of business activities. The Bank's environmental management team records, analyses and manages the direct environmental impact of Deutsche Hypo's business activities.

### Human rights and labour standards

By way of this policy, Deutsche Hypo complies with the six principles of the UN Global Compact that concern the consideration of human rights and labour standards. Through their application, Deutsche Hypo:

- takes into account the importance of human rights standards for employees, market partners and society in the course of its business activities,
- provides employees and market partners with orientation concerning potential human rights violations,
- develops and enhances processes designed to create transparency, as well as for evaluation, analysis and monitoring, and
- ensures that human rights aspects are taken into consideration in complaints management.

The application of the policy supports the operational implementation of the ethics principles. In addition, the policy supplements established general provisions such as the financing guidelines regarding controversial fields of business.

### Tax law requirements

The policy on dealing with tax law requirements expresses a commitment to upholding the Bank's duty to establish appropriate processes and controls for ensuring compliance with tax regulations, promote its social reputation and strengthen its relationship with government agencies, tax authorities and its customers.

### Responsible marketing

In its responsible marketing policy, Deutsche Hypo integrates sustainability into its marketing activities. The Bank is guided by the ICC Consolidated Code of Advertising and Marketing Communications Practice as promulgated by the International Chamber of Commerce (ICC), among other publications.

### Real estate financing

As a Pfandbrief and real estate bank, Deutsche Hypo believes it has a particular responsibility to support its customers in constructing or acquiring and managing real estate, the value of which is also secured by efforts to take environmental and social criteria into account. To appropriately deliver on this mission and thereby reduce financing risks, this policy defines the extent to which aspects of sustainability are to be taken into consideration in the core business of commercial real estate financing.

### **Financing policies regarding controversial areas of business**

These policies define and/or forbid efforts to enter into business relationships with companies in the defence industry and with companies that produce pornography. Financing transactions involving the defence industry are subject to strict conditions. The arms and defence industry is not a field that falls within Deutsche Hypo's core business. Furthermore, Deutsche Hypo finances only those customers that deal with arms and armaments that serve to defend and safeguard the free and democratic rule of law of the Federal Republic of Germany and are produced to fulfil international agreements. Business relationships to companies that produce and distribute pornography, as well as to companies closely related to this sector, are not permitted.

Employees from the various divisions are always consulted in the development of the ESG policies for sectors and bank divisions. Efforts are made to sensitise staff in the relevant divisions to ESG policies. The processes are subject to further development and are adapted to current developments as part of an annual quality review.

# DEUTSCHE HYPO AS AN EMPLOYER

## Employment

An increasingly complex regulatory environment, as well as ever more rapid changes on markets and in the financial sector, has an impact on Deutsche Hypo. In light of these factors in combination with other drivers of change, such as demographic shifts and digitalisation, the HR strategy is faced with the special challenge of managing ever-growing demands on employees. Topics of particular importance in 2016 included:

- Competencies
- Performance orientation
- Leadership
- Agility

The principles applied to personnel management measures are based on an HR strategy derived from the business/risk strategy of the NORD/LB Group. The focus during financial year 2016 was on the management of:

- Personnel volumes, i.e. the value-adding allocation of available resources and capacities as well as safeguarding and maintaining jobs
- Personnel costs, i.e. ensuring market-oriented and performance-based remuneration via a strategic remuneration model
- Personnel quality, i.e. increasing motivation and performance by promoting clarity with regard to tasks, competencies and responsibilities
- Change management, i.e. enabling personnel to change

The ongoing challenge posed by revenue and cost pressure on Deutsche Hypo also shaped the overall human resources work in 2016. The aim was to ensure investment volumes while also achieving cost targets. In an ambitious, challenging environment, Deutsche Hypo was able to safeguard, develop and create jobs across the board in 2016.

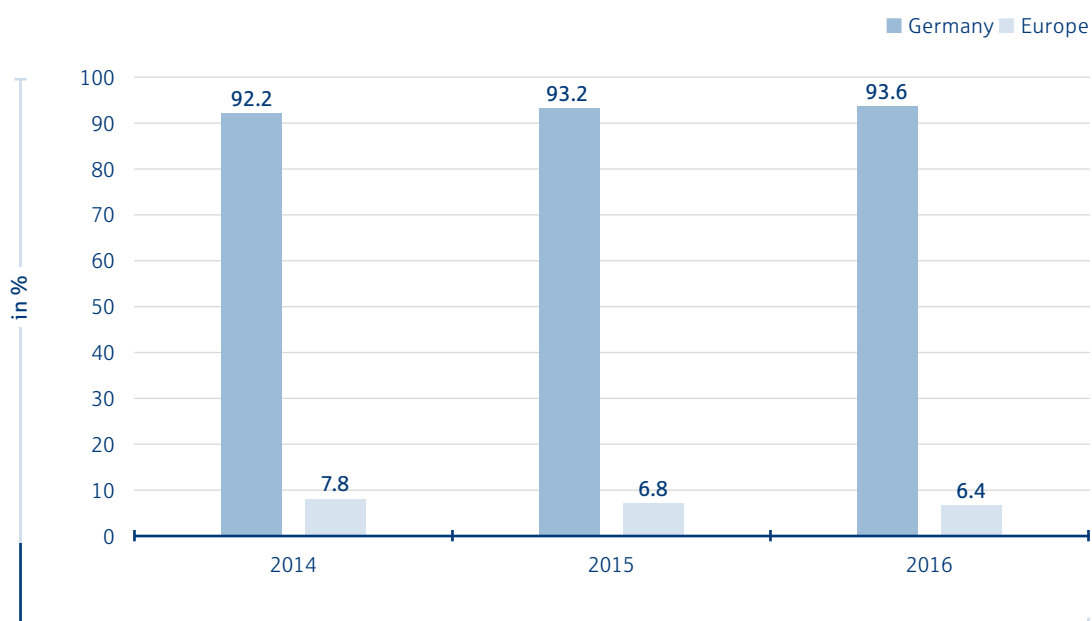
At the end of 2016, Deutsche Hypo had 408 employees (compared to 410 in 2015). The Bank employs a relatively equal number of women and men, and this ratio has remained relatively stable for a long period of time (percentage of female employees: 44.6 %; 2015: 44.6 %). There are no seasonal fluctuations in employment based on the type of work activity. The Bank only employs temporary workers in exceptional cases and to provide cover during special situations.



Table 1: Total workforce according to type of employment, employment contract and gender

	2014	2015	2016
<b>Company employees (total)</b>	411	410	408
<b>Salaried employees (total)</b>	406	397	406
of which male employees	–	222	226
of which female employees	–	175	180
<b>Salaried full-time employees</b>	329	312	317
of which male employees	–	211	213
of which female employees	–	101	104
<b>Salaried part-time employees</b>	77	85	89
of which male employees	–	11	13
of which female employees	–	74	76
<b>Temporary contract employees (total)</b>	5	13	2
of which male employees	–	5	0
of which female employees	–	8	2
<b>Temporary contract employees, full time</b>	4	12	1
of which male employees	–	4	0
of which female employees	–	8	1
<b>Temporary contract employees, part-time</b>	1	1	1
of which male employees	–	1	0
of which female employees	–	0	1
<b>Apprentices and trainees</b>	12	11	12
of which male employees	–	3	4
of which female employees	–	8	8

Chart 9: Total workforce by region



The rate of staff turnover at Deutsche Hypo during the reporting period, including both new hires and employees leaving the company, amounted to 2.7 % (2015: 7.8 %).

**Table 2: Staff turnover by gender, age and region**

	Staff turnover	
	Number	in %
<b>Gender</b>		
Male employees	7	1.7
Female employees	4	1.0
<b>Age structure</b>		
Employees 30 and under	5	1.2
Employees 31 to 50	5	1.2
Employees 51 and over	1	0.1
<b>Region</b>		
Germany	11	2.7
Europe	0	0

Deutsche Hypo complies with all legal requirements stipulated by the countries in which the Bank conducts business activities. In the Federal Republic of Germany, this refers to labour law and co-determination rights, for example. Employee representatives are informed about important company changes in a timely manner. This particularly includes the obligation to inform the Works Council comprehensively and in due time about intended measures so that they are able to execute their responsibilities in accordance with the regulations of the Works Constitution Act (Betriebsverfassungsgesetz – BetrVG). Deutsche Hypo has traditionally attached great importance to co-determination rights. There is regular communication based on trust between the Works Council and the Board of Managing Directors. The Works Council also represents the portion of the workforce not subject to the collective agreement.

Employees are also informed about important topics on a regular basis via employee information presented on the intranet or sent by email, for example. Managers also provide this information to employees who do not have access to email at the Bank.

All employees of Deutsche Hypo have the opportunity and the right to organise in a trade union. Organised employees also receive strike pay. All employees also have the right of freedom of assembly. Employees receive comprehensive information on a regular basis in company meetings. Participation in company meetings is considered working time. The Works Council also regularly informs employees via information letters.

## Diversity and equal opportunity

Generations Y and Z, a growing number of older workers, higher standards of mobility and increasing digitalisation result in varied and growing demands on Deutsche Hypo's employees – and also on the Bank's diversity efforts.

Deutsche Hypo's diversity work is based on a holistic, integrative approach. The great desire to treat staff fairly and properly, and to support them, is linked with actively managing differences, cultural backgrounds and practical experience to the benefit of the company.

In addition to the guidelines on Diversity Management, which provides a framework in this context, the Bank's fundamental values play a significant role. By observing ethical principles and signing the Charta der Vielfalt, Deutsche Hypo has affirmed that there is zero tolerance at the Bank for any type of discrimination or harassment, regardless of whether based on gender, age, disability, ethnic background, religion and world view, sexual identity, political opinion or memberships in a trade union. Deutsche Hypo has a protective role vis-à-vis its employees in this context. A violation of this basic principle can result in disciplinary consequences and even termination. Possible cases of discrimination may be reported to the complaints office. No known cases of discrimination were reported in 2016.

Deutsche Hypo is expressly committed to diversity and promoting equal opportunities. In this way, diversity management also contributes to corporate culture. The diversity of our employees is part of our corporate identity. Mutual respect is the foundation of our work together at the Bank and the Group. Our employees' conduct – and thus our company's conduct – is guided by mutual respect, openness, honesty and a mutual understanding of cooperation based on trust. By promoting this behaviour, Deutsche Hypo hopes to also contribute to acceptance and openness in society as a whole.

Diversity efforts focus on leveraging the heterogeneity at the Bank to garner positive results (i.e. exploring different perspectives, experiences, approaches and values for the benefit of the company). This results in positive prospects and possibilities for development for the entire staff. The potential of female Bank employees' also received special support through targeted measures, such as setting targets for the percentage of women in leadership positions as well as a quota for female employees to be used as a guiding principle during the hiring process. As a means of supporting and protecting people with disabilities, people at risk of disability and severely disabled people, confidants and representatives of severely disabled employees were selected. The percentage of employees with disabilities at Deutsche Hypo amounted to 3.9 % in 2016.

The diversity figures at Deutsche Hypo – in view of the percentage of female employees at 44.6 % (2015: 44.6 %), women in management positions at 10.3 % (2015: 10.7 %) and women on supervisory or administrative boards at 16.6 % (2015: 16.6 %) – have remained stable with little fluctuation over a longer period. The percentage of female employees on the Board of Managing Directors increased to 33.3 % (0.0 % in 2015). In 2016, the workforce originated from nine different countries (ten countries in 2015).

Chart 10: Supervisory Board by gender

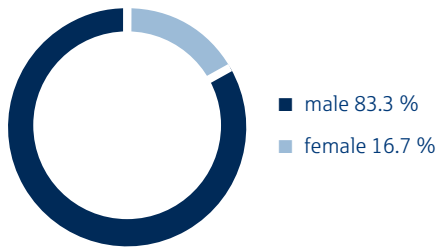


Chart 11: Board of Managing Directors by gender

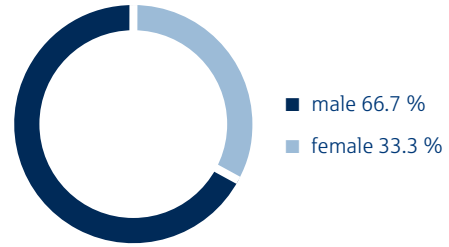


Chart 12: Age structure of managers

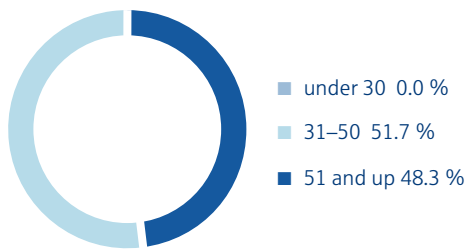


Chart 13: Managers by gender

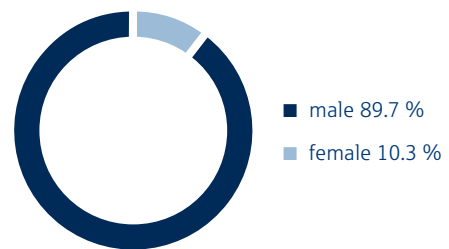


Chart 14: Age structure of employees

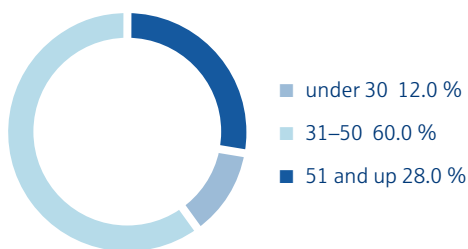


Chart 15: Employees (total) by gender

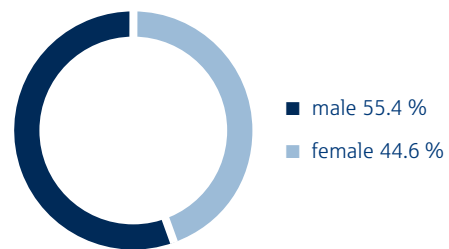
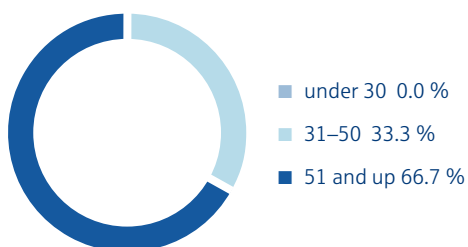


Chart 16: Age structure of Board of Managing Directors



## Remuneration system

The collective bargaining agreement for the private banking sector and public banks forms the basis for the remuneration of employees subject to the collective bargaining agreement at Deutsche Hypo. In addition to fixed remuneration comprising twelve equal instalments, employees subject to the collective bargaining agreement also receive a special bonus equal to an additional month's salary. Employees who are not subject to the collective pay scale receive a basic fixed annual salary paid in twelve equal instalments.

All job evaluations are performed based on work responsibilities rather than on the individual, so that an industry-standard minimum remuneration is ensured based on the employees' qualifications, scope of responsibilities, functions and professional experience regardless of race, ethnic background, gender, religion or world view, disability, age or sexual orientation.

Variable remuneration is determined for all employees in a transparent process defined by the Bank and the Works Council. The amount of variable remuneration is limited to 100 % of fixed remuneration.

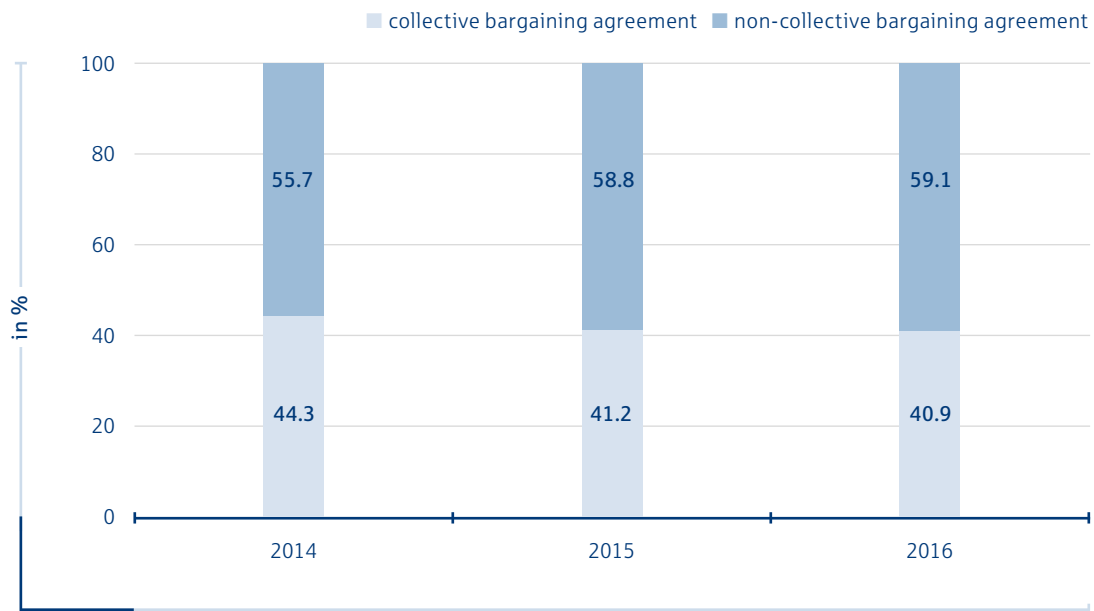
Employees of Deutsche Hypo who do not have temporary employment contracts are entitled to participate in the applicable company pension plan. Deutsche Hypo also offers comprehensive social security benefits, such as contributions to capital formation; continued remuneration in the event of illness; leave for special events; an anniversary bonus after 10, 25 and 40 years of employment with the company, marriage and birth allowances, subsidised lunches, subsidised use of public transport, subsidised attendance of external sporting events, and group accident insurance.

The Annual General Meeting determines the remuneration of the Supervisory Board. This remuneration is a fixed salary. The amount depends on whether the member has assumed a position of leadership on the Supervisory Board or participates on committees, among other factors. Board of Managing Directors remuneration comprises an annual fixed salary and variable remuneration. The Supervisory Board determines the amount of the variable portion according to the targets set and the results achieved. This reflects the Bank's success, the success of the responsible business units as well as the individual success taking into account the risks taken. One part of the variable remuneration is extended over a period of five years in accordance with the institution's remuneration guideline.

The Board of Managing Directors is responsible for the appropriate structure of the remuneration system at the company levels below the Board of Managing Directors. The executives are contractual employees of Deutsche Hypo, and their remuneration is not subject to the collective agreement. Remuneration usually comprises an annual fixed salary and variable remuneration. The variable remuneration may not exceed the fixed remuneration amount. With regard to risk takers, which include members of upper management, special regulations apply to remuneration. Depending on their position, responsibilities and activities, as well as the amount of variable remuneration and the risks taken, up to 60 % of the payment of variable remuneration can be extended over a period of up to five years. This payment is bound to the overall results, performance and risk-oriented requirements, as well as the sustainable development of the institution. Further information on this topic is published each year in the remuneration report, which is available on the website. The remuneration report for a reporting year is usually published at the start of the third quarter of the following year.

Deutsche Hypo is classified as a significant institution within the meaning of the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung – InstitutsVergV). The Bank's remuneration system is subject to the special requirements of the InstitutsVergV. Deutsche Hypo is also subject to disclosure pursuant to Section 16 InstitutsVergV in conjunction with Article 450 of EU Regulation no. 575/2013 and prepares an annual remuneration report.

**Figure 17: Overview of proportion of employees subject to a collective bargaining agreement and not subject to a collective bargaining agreement**



**Figure 18: Overview of employees not subject to collective agreement by gender**

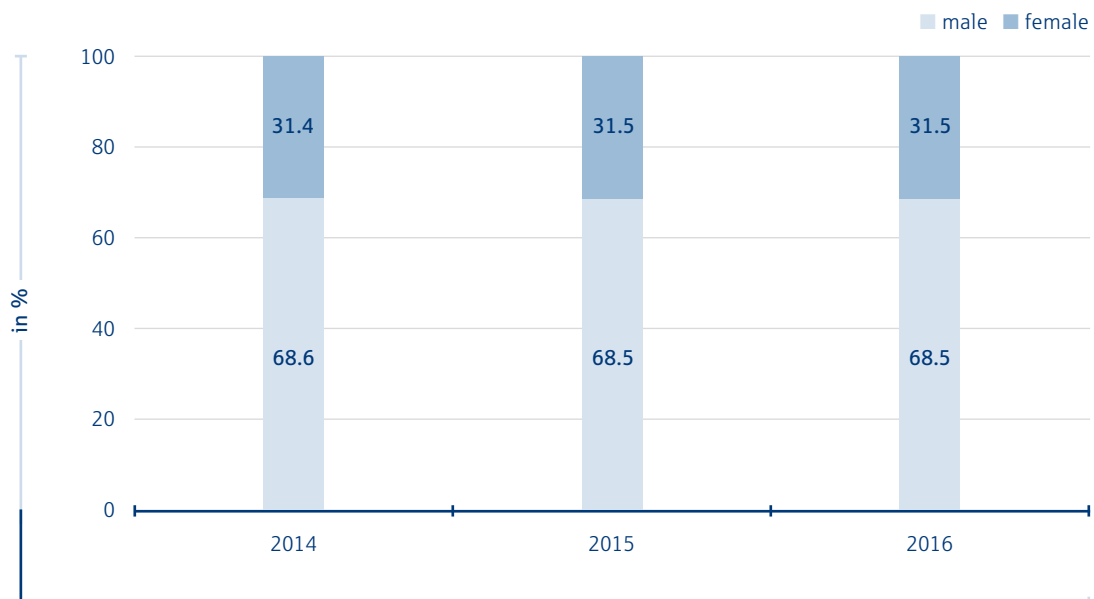
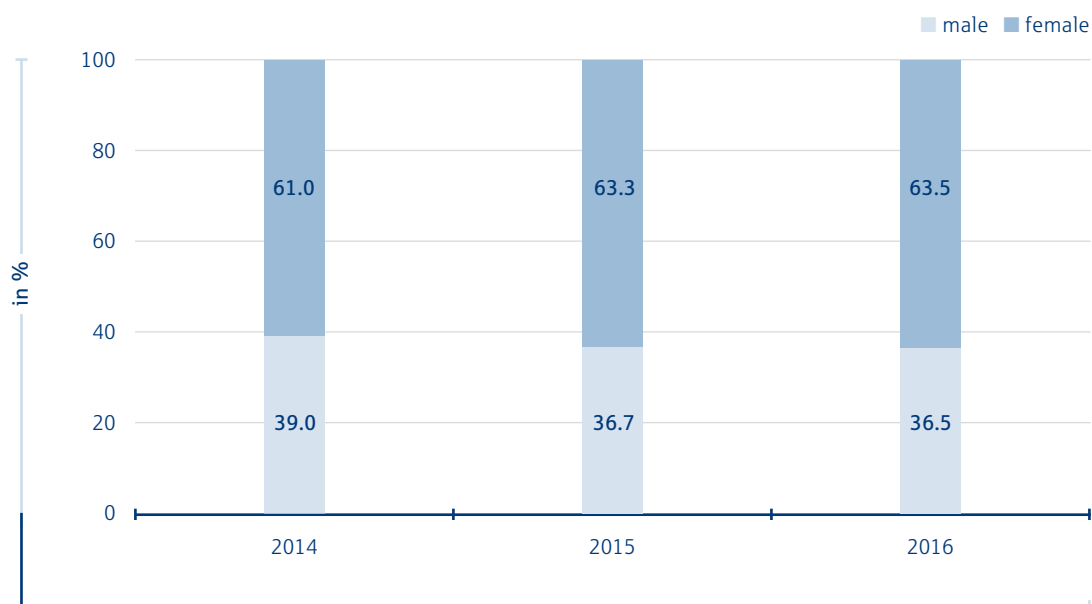


Figure 19: Overview of employees subject to collective agreement by gender



Nearly all company social benefits, such as health care, parental leave and pension benefits, are made available to full-time employees, part-time employees and employees subject to temporary employment contracts.

## Recruitment

Deutsche Hypo's main locations, with over 90 % of its employees, are located in the Federal Republic of Germany.

Table 3: New hires by gender, age and region

	New hires	
	Employees	in %
<b>Gender</b>		
Male employees	6	60.0
Female employees	4	40.0
<b>Age</b>		
Employees under 30 years old	5	50.0
Employees between 31 and 50 years old	5	50.0
Employees 51 and older	0	0.0
<b>Region</b>		
Germany	10	100.0
Europe	0	0.0

## Encouraging/attracting the next generation

Deutsche Hypo offers attractive and high-quality training, primarily in business and administrative professions. A dual study and trainee programme is also offered. Deutsche Hypo provided training in traditional banking professions once again in financial year 2016. This offer was expanded to include the international bachelor of arts (B.A.) course of study, which is offered in association with the Leibniz-FH (University of Applied Sciences). The Bank had a total of 13 trainees and work-study students in the reporting period. In contrast to the industry trend, Deutsche Hypo has succeeded in further raising the quality and quantity of job applications for trainee positions through its structured campaigns aimed at attracting the next generation.

The trainee partnership programme with NORD/LB was successfully continued in the reporting period. Trainees from the parent company helped support Deutsche Hypo's real estate banking business, while trainees from Deutsche Hypo had the opportunity to shadow staff in various divisions at NORD/LB. Trainees at Deutsche Hypo can also take advantage of the wide range of options offered by NORD/LB to help them prepare for tests as well as a selection of seminars.

In addition to traditional vocational training, Deutsche Hypo offered qualified university graduates and internal employees the opportunity to participate in trainee programmes. By doing so, the Bank offers an attractive way of preparing up-and-coming staff for challenging responsibilities in a targeted and practical manner.

University students can participate in attractive internships and gain valuable first impressions of the banking business of a real estate and Pfandbrief bank. Cooperation on dissertations is also possible under certain conditions. During the reporting period, there were a total of six internships at the Bank.

## Further education

Personnel policies with a focus on increasing potential make valuable contributions to ensuring the future sustainability of Deutsche Hypo. The management of personnel quality (i.e. enabling staff to undergo necessary changes as well as increasing the willingness to lead and perform through appropriate personnel development measures) characterised the personnel development policy of the Bank in 2016.

Personnel development activities at Deutsche Hypo in 2016 continued to pursue the aim of creating added value by leveraging synergies within the Group based on the introduction of the Group competency model, which has been adapted to the qualities that make Deutsche Hypo special. Building on this, the revision of the criteria of the employee appraisal process, which is part of the annual performance appraisal, is currently being negotiated with the Works Council. Furthermore, 360° feedback for managers and the establishment of the individual assessment centres as a standard selection tool for managers are among the measures planned.

A programme to train an internal sales trainee was launched in 2016 to promote the advancement of internal sales talents selected through a specially designed sales assessment centre. Plans are in place to systematically identify and qualify internal sales talents in the future.



In addition to training courses, seminars and numerous on-the-job development measures, ongoing training and education play a key role in personnel development at Deutsche Hypo. As a result, Deutsche Hypo supports employees who are obtaining additional professional or bank-related education or training. In 2016, a total of 15 Bank employees were supported by the Bank in taking advantage of extra occupational training and education opportunities, such as master's degree programmes, certified banking professional (Bankbetriebswirt) training or gaining specific professional qualifications. To underpin the importance of ongoing training and education in employee qualification, the company agreement on the promotion of corresponding measures, which was originally set to expire on 31 December 2016, was extended indefinitely at the end of the year.

An additional workshop with female Bank employees was held in the reporting year with the aim of getting more women into leadership positions in the medium term. The event served to gauge participants' interest in leadership positions as well as their perception of the status quo and the current conditions. The findings of this and the previous analysis of the status quo are being used to derive future measures. In addition, the Bank plans to work with NORD/LB to focus more attention and energy on the issue of women in leadership.

A leadership programme for departmental managers was successfully completed in 2016 as part of the management development programme. Having been preceded by a development series for group leaders, consistent leadership goals and models on which all (future) elements are to be based have therefore been anchored at management level. In addition, managers who are new in their role have taken part in the NORD/LB leadership workshop since 2016.

**Table 4: Seminar attendance**

	2014	2015	2016
<b>Management (in work days)</b>	52	118	136
of which male employees	–	106	122
of which female employees	–	12	14
<b>Employee (in work days)</b>	459	643	596
of which male employees	–	314	312
of which female employees	–	329	248
<b>Average work days</b>	1.2	1.9	1.8
<b>Percentage of training days for management</b>	10.2 %	15.5 %	18.6 %
<b>Percentage of training days for employees</b>	89.8 %	84.5 %	81.4 %
<b>No. of hours for management</b>	406	920	1,061
<b>No. of hours for employees</b>	3,580	5,015	4,649
<b>Average no. of hours for management</b>	7.0	15.9	18.3
of which male employees	–	16.5	18.3
of which female employees	–	15.6	18.2
<b>Average no. of hours for employees</b>	9.7	14.5	14.0
of which male employees	–	14.4	15.0
of which female employees	–	14.5	11.3

The training offers are available to all employees, regardless of factors of any kind (such as age, gender, working time model, remuneration group as per the collective bargaining agreement, temporary/permanent contract) to the same extent and scope.

## Annual performance appraisal

Within the context of the annual appraisals, all managers and employees are subject to a performance and competence appraisal together with a development discussion involving development planning. The development discussion, together with the development planning, supports the target-oriented exchange of information between management and employees with the objective of identifying strengths, areas of development and next steps.

## Work-life balance

The compatibility of family and career enjoys high priority at Deutsche Hypo and is reinforced by a company agreement. Through an external service provider, the Bank offers its employees places in a crèche, holiday childcare, emergency care options and care for the elderly.

Digitalisation and advancing technological progress are changing the possibilities and conditions in the working world. For example, the option of alternating telecommuting was further expanded in the reporting year. A total of 38 employees took advantage of the opportunity of doing part of their work at home.

In addition to the compatibility of family and career, the health of its employees is important to the Bank. To promote health, Deutsche Hypo offers a company counselling service through an external service provider, for example. The Bank also offers all employees over the age of 45 a medical check-up and health coaching programme every three years. Furthermore, the Bank makes efforts to further promote measures aimed at qualifying management staff with regard to “healthy” leadership and making them aware of the topic. In 2017, the Bank plans to establish the model it has developed to help it analyse mental health risks throughout the company.

## Company health management

Employees’ health is a topic of social importance. It facilitates social interaction, work-life balance and relieves the social security system. Preserving the health and capacity to work of all our employees via qualitative health management activities rounds out the personnel management activities performed at Deutsche Hypo.

In view of company health management, the promotion of personal and company health takes centre stage. Company health management compliments the traditional occupational safety measures with the development of health promoting company goals, corresponding conduct for managers and other health-related resources in order to anchor them in the structure of the Bank. This may involve changing the organisation of work activities (development and process organisation), restructuring work activities and improving communication structures.

Through targeted improvement of the working conditions and work organisation, we can enable an increase in the personal efficiency of the employees and resolve or reduce health-related problems.

Employees' work quality is enhanced by the following:

- fewer health-related complaints
- increased well-being and increased quality of life
- healthier conduct at the company
- improved company environment

The Bank's benefits from:

- increased productivity
- less illness
- increased satisfaction at work
- improved company communication
- enhanced image for the company

The successful promotion of health is characterised by fulfilling and implementing the following targets:

- Health is viewed as an important criterion when planning and organising work.
- Deutsche Hypo systematically and comprehensively analyses health risks and stress factors.
- Employees and managers are aware of health-related issues and participate actively in improving their work conditions and reducing stress.

Active employee participation is as important for successful company health management as the credible commitment of managers and the Works Council. The Bank expects its managers to continuously motivate and raise awareness among employees so that the employees are in a position to recognise the benefits of the measures and instruments offered by the company health management and to take advantage of these in a targeted and purposeful manner.

Health management offers at Deutsche Hypo include initiatives as well as prophylactic support instruments, such as:

- Annual flu shots
- Mindfulness courses
- Relaxation exercises during lunch break
- Company sports (e.g. football, running, bowling, dragon boot, swimming)
- Health checks for employees and management

The company health management activities in 2016 continued to focus on increasing awareness, as well as the training and qualification of managers through coaching. Deutsche Hypo strives to enhance its status as a responsible employer within the meaning of the legal requirements with the newly developed concept for psychological risk evaluation.

## Occupational safety and health protection

These aspects are regulated in Germany in the Occupational Safety Act (Arbeitssicherheitsgesetz – ASiG), Work Protection Act (Arbeitsschutzgesetz – ArbSchG) and the “DGUV Regulation 2” accident prevention regulation. Occupational safety is also highly influenced by European legislation. Uniform minimum standards for occupational safety and health protection apply to member states of the EU.

As employees of a financial service provider, the employees of Deutsche Hypo do not perform any activities that are classified as particularly dangerous or damaging to health. Within the context of workplace inspections, the conditions on site are reviewed on a regular basis. Any abnormalities, such as the frequency of accidents at a specific location or the suspicion of work-related causes of accidents, are reviewed by specialists in occupational safety and the company physician (e.g. within the context of inspections). Measures are taken where necessary.

A health protection challenge that is also faced in other industries is the increase in mental illness or illnesses related to the skeletal muscles. With regard to work-related or psychosocial problems, all employees can take advantage of neutral external social counselling services.

The occupational safety committee (ASA) at Deutsche Hypo is responsible for all questions related to occupational safety and accident prevention. The ASA represents the concerns of the Bank’s employees. This committee usually meets four times a year, and its members are as follows, in accordance with the legal requirements:

- one employer and company officer
- two members of the Works Council
- one company physician
- one specialist for occupational safety
- representative of severely disabled
- two safety officers

Representatives of the Compliance and Security, Organisation and IT, and Human Resources and Legal departments also participate in the ASA. The ASA’s tasks include:

- Discussing fundamental questions and problems related to occupational safety, accident prevention and ergonomics
- Recommendations regarding the implementation of new regulations and laws
- Development of campaigns and activities on selected topics
- Discussing current findings from media on possible health risks
- Ad hoc publication of internal safety information

As a rule, all occupational safety topics at Deutsche Hypo are resolved formally with the Works Council. In addition to the legal requirements on occupational safety and company medicine, Deutsche Hypo offers its employees a variety of counselling services, which are made available to all employees. The company physicians also provide information about the optimal design of workstations as well as preventative measures with regard to posture and impaired vision. When procuring furniture and IT equipment, the ergonomic features are assessed. Several Group locations also have early defibrillation devices.

Within the context of company integration management, the Bank supports employees with long-term and chronic illnesses with individual measures. Legally required and additional measures are available to all employees.

Despite the growing demands on employees, Deutsche Hypo was able to slightly improve the rate of illness in 2016, which stood at 3.3 % (2015: 3.5 %). This was achieved through active health management aimed at preserving and promoting employee health. Over the last three reporting periods, there were no company accidents at Deutsche Hypo. The applicable rules on company accidents are presented in the accident report. There are no regional discrepancies, and there were no company accidents resulting in death.

**Table 5: Overview of sick days and accidents at work**

	2014	2015	2016
<b>Accidents at work (number)</b>	0	0	0
of which male employees	–	0	0
of which female employees	–	0	0
<b>Accidents at work (work days)</b>	0	0	0
of which male employees	–	0	0
of which female employees	–	0	0
<b>Deaths resulting from accidents at work</b>	0	0	0
<b>Sick days (work days)</b>	2,846	3,366	3,200
of which male employees	–	1,703	1,351
of which female employees	–	1,663	1,849
<b>Target work days (work days)</b>	95,890	95,424	96,656
of which male employees	–	55,080	55,885
of which female employees	–	40,345	40,771
<b>Percentage of accidents at work to number of staff</b>	0.0 %	0.0 %	0.0 %
<b>Percentage of accidents at work to sick days</b>	0.0 %	0.0 %	0.0 %
<b>Percentage of accidents at work to target work days</b>	0.0 %	0.0 %	0.0 %
<b>Percentage of sick days to target work days (illness rate)</b>	3.0 %	3.5 %	3.3 %

## First aiders and fire protection officers

Where there are 20 employees or more present at the company, Deutsche Hypo is required by law to ensure that the number of first aiders and fire protection officers corresponds to 5 % of the employees at the company. Deutsche Hypo fulfils the legal requirements stipulated in Section 10 ArbSchG, Section 26 of statutory accident insurance regulation 1 (“Principles of Prevention”) and Section 23 (1) of the Social Security Code (Sozialgesetzbuch – SGB), Book VII. The fulfilment of the quotas as of 31 December 2016 was reviewed, and the findings were as follows: 9.1 % of staff were trained as first aiders (AED), and 5.9 % as fire protection officers.

## External security staff and the security control office

Security staff provided by an external security service provider are assigned with ensuring the safety of the Bank’s buildings. The security staff are subject to the regional laws applicable at the respective locations. Only trained security staff (regular and ad hoc training) are hired. Special training on human rights violations was not performed, as the G4-HR7 indicator was deemed insignificant.

# CUSTOMERS AND PRODUCTS

## Legal framework

With regard to financial products, lawmakers require banks to comply with a wide range of information and transparency obligations, such as keeping minutes of meetings with customers, classifying customers and products into risk classes, providing advice that meets the needs of investors and investments, and providing an overview of costs and fees. The Bank fulfils these obligations without exception.

The sale of issues by Deutsche Hypo is based on applicable laws and regulations. In Germany, those laws and regulations include the provisions set out in the Securities Prospectus Act (Wertpapierprospektgesetz – WpPG). As a result, all information required by the customer is available from the Bank and online. For Deutsche Hypo, complying with statutory requirements is a top priority. The compliance and internal audit departments monitor compliance by auditing procedures.

Deutsche Hypo was not notified of any case of non-compliance with laws and regulations related to information about the labelling of products and services or the provision and use of products and services during the reporting year.

## Customer satisfaction

The NORD/LB Group surveys customers regularly throughout the Group to ascertain and measure customer satisfaction every two years. The satisfaction survey aims to demonstrate how satisfied customers are with the Bank while also revealing the danger of potentially losing customers. This Group-wide survey can be used to derive specific areas where Deutsche Hypo needs to take action.

The survey method used by NORD/LB first defines consistent measurement criteria. The data obtained is subsequently aggregated and adjusted to a comparable basis for the various business areas. For the study, customers are surveyed at a NORD/LB Group business area level. The survey covers the following:

- Overall customer satisfaction
- Customer loyalty
- Customer support staff
- Quality of advice and support
- Active efforts to approach the customer
- Brand/benchmarking
- Product use and product ratings

The findings of the survey are presented on a scale of 0 to 100. NORD/LB has set itself a goal of 80 index points. The Group and its subsidiaries have been tasked with meeting or exceeding this target. NORD/LB uses the best-in-class method, comparison with the best respective competitor, to set benchmarks.

Deutsche Hypo exceeded the target of 80 index points in the 2016 customer survey. The good result reflects customers' overall satisfaction. At the same time, the survey has also revealed potential for optimisation that Deutsche Hypo has since then been working very hard to leverage.

## Commercial real estate finance

Deutsche Hypo, a provider of commercial real estate financing, is active in the core markets of Germany, the United Kingdom, France, the Benelux countries, Spain and Poland. The Bank deems it important to be a partner on equal terms to its customers. Deutsche Hypo makes an active contribution to guiding the real estate sector towards building lasting, sustainable infrastructure. Having high quality standards for financing transactions and only entering into promising new business are part of its basic philosophy.

Aspects of sustainability are included in the risk assessment of all real estate projects. A sustainably planned property runs a lower risk of vacancies, for example. In the interest of a sustainable core business, the Bank evaluates exposures according to economic, construction and environmental risks as part of the risk management process. The Bank then works together with customers to develop the best possible financing solution. Deutsche Hypo has established a green building working group within the Bank to quantify aspects of sustainability, among other objectives. As of 31 December 2016, project developments slated for certification accounted for 50 % of total commitments (previous year: 36 %). This percentage is subject to natural fluctuation, as the number of project developments and types of property in question may vary widely from year to year. By financing such green buildings, the Bank intends to make an active contribution to reducing greenhouse gases. Deutsche Hypo is aware that its actions have an influence on various different stakeholders. By supporting the reduction of CO<sub>2</sub> emissions, the Bank intends to live up to its responsibility towards customers, employees, owners and society.

Deutsche Hypo is constantly working to enhance and expand its product portfolio using a number of methods, such as intensive market observation and consideration of customer needs. A comprehensive new product process (NPP) is started once new, innovative ideas or new target markets have been identified. Aspects of sustainability are also taken into account in this process.

In addition, the Board of Managing Directors put together an innovation team in 2015 to take a closer look at the Bank's future viability. The sustainable development of the Bank, product portfolio and customer relationships played an important part in this assessment. The team identified comprehensive measures regarding ways in which Deutsche Hypo can cement and expand its favourable market position in the medium and long term. The implementation of various measures started in 2016.

## Capital market business

In the capital market business, Deutsche Hypo bundles its business in securities, money markets, derivatives with banks as well as funding. Furthermore, this area handles the public sector finance business. For some years now, the Bank has been reducing this portfolio.

The Bank issues unsecured bonds as well as Pfandbriefe. The Pfandbriefe it issues fulfil all requirements under the German Pfandbrief Act. Senior unsecured bonds are pari passu with other bonds of the same asset class, which may include issues in benchmark format as well as smaller volumes (private placements).

In addition to operative liquidity management, Deutsche Hypo's active dealings in securities primarily relate to investment in accordance with regulatory provisions (in a broader sense: liquidity buffer, provision of collateral to central banks, etc.) and the management of the Pfandbrief cover pool.

## Products and services that benefit society

The direct and indirect contributions for customers and society generated by the core business were taken into consideration in determining the monetary value of products and services that benefit society. Lending to customers whose business activities are of particular public interest was factored into social sustainability. The following sectors have been identified at Deutsche Hypo in accordance with the Bundesbank's sectoral classification system:

- Housing companies
- Education
- Human health activities
- Residential care activities
- Manufacturing of food products

As of 31 December 2016, Deutsche Hypo had committed € 12.1 billion to financing these sectors.

## Products and services that benefit the environment

Lending activities that benefit the environment have been identified at Deutsche Hypo for the following sectors, in line with their benefit for society:

- Waste collection, treatment and disposal activities
- Manufacture of machinery and equipment

As of 31 December 2016, Deutsche Hypo had committed € 105 million to financing these sectors.



# DEUTSCHE HYPO'S COMMITMENT TO SOCIETY

Commitment to society in the business environment is an important topic for Deutsche Hypo. A bank's region is more than a location where it does business. It is the place where its employees and many of its customers live and work, and it is essential for attracting new staff and talents. In addition, the Bank sources a significant share of the services it purchases from the region.

Deutsche Hypo therefore focuses on the following areas in its efforts to contribute to an attractive region with a high quality of life:

- by promoting science and research
- by supporting social projects
- by acting as a donor and sponsor
- through its employees' volunteer work

In its commitment, Deutsche Hypo focuses on stability, continuity and reliability. As a result, the projects it makes possible are usually long term in nature, in line with principles such as the compliance guidelines, the ethics principles and the rules of responsible corporate governance.

**Table 6: Overview of donations**

in €	2014	2015	2016
Social causes	1,910	2,910	1,750
Cultural causes	–	–	–
Environmental causes	–	–	–
Sport	250	250	250
Research, business development, science	16,000	15,000	20,000
Other (no focus)	–	–	–
<b>Total</b>	<b>18,160</b>	<b>18,160</b>	<b>22,000</b>

## Science and research

Deutsche Hypo focuses its support on improving the provision of healthcare in Germany with a special emphasis on cancer research. With this aim in mind, Deutsche Hypo marked its 100th anniversary in 1972 by creating the Johann-Georg-Zimmermann Prize, which is awarded in cooperation with the Hannover Medical School (MHH). This year's annual award ceremony was held at the MHH on 6 February 2017.

The € 10,000 Johann Georg Zimmermann Research Prize for 2016/17 – geared towards young physicians in the field of cancer research for their current scientific work – was awarded to Professor Rebekka Schneider-Kramann (35), who is head of the Working Group on Haematology, Erasmus Medical Centre, Rotterdam, Netherlands, and Klinik für Hämatologie, Onkologie, Hämostaseologie und Stammzelltransplantation, Uniklinik RWTH Aachen [clinic for haematology, oncology, haemostaseology and stem cell transplantation at the teaching hospital RWTH Aachen]. Her research focus is on del(5q) myelodysplastic syndrome, or del(5q) MDS for short. MDS is one of the most common malignant blood disorders among adults. In one current study, Schneider-Kramann identified a mechanism activated specifically in diseased cells which can be used for a particular treatment. In addition, she and her team uncovered the underlying defect in impaired blood formation in MDS.

The Johann Georg Zimmermann Medal for 2016/17 was awarded to biochemist Professor Axel Ullrich, head of the emeritus research group for molecular biology at the Max Planck Institute of Biochemistry in Martinsried (near Munich). He is one of the world's leading scientists in conducting research on signal transduction in cancer cells and a pioneer in the development of targeted cancer treatments. With his team, the molecular biologist is investigating the complex system used to transmit information from the cell surface to the cell interior. Ullrich's findings formed the basis for the development of the first targeted anticancer agent, for example.

## Social causes

In 2010, Deutsche Hypo's employees started the Weihnachtswünschebaum, or Christmas wish tree, project. The project aims to make the wishes of children and young people from Güldene Sonne, an educational and therapeutic residential centre in Rehburg-Loccum (near Hanover), come true. Every year, the Bank's employees invest a total of around € 2,000 of their own money in some 100 children's wishes. The Bank also supports HAZ Weihnachtshilfe, a Christmas donation and charity campaign organised by the newspaper Hannoversche Allgemeine Zeitung (HAZ), every year.

## Public policy

Deutsche Hypo is involved in creating a binding and transparent framework of rules and regulations for the financial services sector to help it live up to its economic and social responsibility. With this aim in mind, the Bank works with various associations, including the Association of German Pfandbrief Banks (vdp), the German Property Federation (ZIA) and Initiative Corporate Governance der deutschen Immobilienwirtschaft e.V. (ICG). Deutsche Hypo has a policy of not making donations to political parties and organisations closely associated with political parties.

# BANK OPERATIONS

Against the backdrop of various negative environmental developments – such as climate change, the scarcity of water and resources, deforestation and threats to biodiversity – businesses and society are called upon to make a contribution to protecting the natural environment. Deutsche Hypo is committed to climate protection in the awareness that fighting the negative effects of climate change is already one of the greatest societal challenges of the 21st century. However, the Bank, in its role as a company that operates in the financial services industry rather than in the manufacturing sector, believes that the danger of being directly and significantly involved in irreversible environmental damage on account of its own business activities is low.

Deutsche Hypo provides workspaces for 408 employees in offices in Germany and abroad that have to be heated and/or air conditioned and supplied with water, IT hardware and office equipment. In addition, Deutsche Hypo's activities require mobility in order to provide one of the main services of a financial services provider: advising customers.

As part of its sustainability strategy, Deutsche Hypo has defined protecting the environment as a key aspect. The goal is to consistently raise the Bank's ecological efficiency by reducing emissions and cutting the consumption of resources and energy. Deutsche Hypo also currently views the continuous reduction of CO<sub>2</sub> emissions as a key aspect in view of climate change.

Personal contact with customers is vital for the banking industry. Business travel is therefore the main factor when it comes to transport. Deutsche Hypo's employees are instructed to choose the least expensive mode of transport while also taking environmental concerns into account when planning their travels and when on the road. As a result, the travel expenses guidelines give preference to rail travel over travel by car. The goal is also to sensitise employees with the aim of limiting air and car travel to the those trips that are absolutely necessary and further increasing the use of technical alternatives such as conference calls and video conferencing.

As an employer of 408 people, the daily commute of the company's employees is also a potential field of action for reducing and/or preventing emissions. Deutsche Hypo therefore offers its staff in Hanover the use of employer-sponsored season tickets for public transport for their daily commute. Almost 70.0 % of employees took advantage of this offer in 2016.

## IT equipment

The IT hardware used by Deutsche Hypo meets the following standards:

Monitors/screens:

- TCO standards
- Energy Star 5.0 or Energy Star 6.0
- REACH
- RoHS directive 2002/95/EC
- RoHS2 directive 2002/95/EC
- WEEE directive
- Ecodesign directive (ErP) 2009/125/EC

Printers

- Blue Angel

## Energy and emissions

Employees moved into the new building, in which Deutsche Hypo rents space, in November 2014. In 2015, the building received platinum certification – the highest property rating – from the German Sustainable Building Council (DGNB). For example, the building saved 15 % more energy than required in the Energy Savings Ordinance (Energiesparverordnung) of 2011, the year in which the building was planned. Furthermore, the building fulfilled the highest standards with regard to environmental and economic quality. The offices were designed and decorated in line with modern technical standards that ensure a good cost-benefit ratio. They have been engineered to ensure an optimal indoor climate, both in summer and in winter. The cooling and heating system is centrally managed and controlled so as to ensure, for energy and efficiency reasons, that the systems do not work against each other. In addition, many different steps are taken to provide employees with a pleasant working environment.

The consumption values for the building also include consumption figures for some 100 employees of NORD/LB who sublet space in Deutsche Hypo's offices. Due to common control loops, it is not possible to precisely prorate the consumption values.

**Table 7: Direct energy consumption by primary energy carrier**

in GJ	2014	2015	2016
Petrol consumption for vehicles	–	47	44
Diesel consumption for vehicles	–	1,162	1,603
<b>Total</b>	<b>2,378</b>	<b>1,208</b>	<b>1,647</b>

The number of kilometres driven in the course of Deutsche Hypo's business activities varies from year to year due to fluctuation in the number of company vehicles and the expansion of sales activities, among other factors.

**Table 8: Indirect energy consumption by primary energy carrier**

in GJ	2014	2015	2016
Electricity	1,476	3,023	3,070
District heating	1,623	1,589	1,724
<b>Total</b>	<b>3,099</b>	<b>4,612</b>	<b>4,794</b>

The consumption values for electricity and district heating are highly dependent on weather conditions. More district heating is consumed in cold winters, whereas more electricity is needed for air conditioning in hot summers. Furthermore, there is the need for more air conditioning over time through the use of more equipment.

**Table 9: Greenhouse gas emissions according to the Greenhouse Gas Protocol methods**

in t of CO <sub>2</sub>	2014*	2015*	2016
<b>Scope 1: Direct CO<sub>2</sub> emissions</b>			
Petrol (company vehicles)	–	4	3
Diesel (company vehicles)	–	87	122
Scope 1 total	188	91	125
<b>Scope 2: Indirect CO<sub>2</sub> emissions</b>			
District heating	37	36	40
Electricity	304	273	246
Scope 2 total	341	309	286
<b>Scope 3: Indirect CO<sub>2</sub> emissions by third parties</b>			
Electricity	77	35	32
Heating	7	10	11
Transport and mobility (e.g. business travel)	184	115	112
Paper	26	15	12
Water	4	2	2
Waste	12	6	7
Scope 3 total	310	184	176
<b>Total</b>	<b>839</b>	<b>585</b>	<b>587</b>

\* The consumption values for 2014 and 2015 have been adjusted in some cases

## Material consumption

Over 90 % of the paper used by Deutsche Hypo features a sustainability label. The annual report and other company brochures are also printed in a climate-neutral manner. Deutsche Hypo uses printer and copier paper from sustainable forestry featuring the Forest Stewardship Council (FSC) label.

**Table 10: Materials used by weight and share of recycled material**

in kg	2014	2015	2016
<b>Paper purchasing</b>	21,200	12,776	10,458
of which: recycled paper	–	–	–
of which: virgin fibre paper (ECF and TCF)	15,200	12,776	10,458
of which: chlorine-bleached virgin fibre paper	6,000	–	–
<b>Percentage of paper featuring sustainability label</b>	<b>90.0 %</b>	<b>92.3 %</b>	<b>90.4 %</b>
<b>Paper consumption per employee</b>	<b>51.7</b>	<b>31.1</b>	<b>25.6</b>

The high paper purchasing figure in 2014 was due to the procurement of a large quantity of paper for immediate use in the new offices as part of the move. This consumption figure has since normalised. Employees have also been sensitised to avoiding unnecessary printing and printing both sides of the paper.

Deutsche Hypo obtains its drinking water from regional providers. Water for the Hanover location comes from waterworks located north and south of the city (Elze-Berkhof, Fuhrberg, Grasdorf). The location also uses water from reservoirs in the Harz mountains.

## Waste and waste water

The amount of waste water – drinking water from sanitary facilities and kitchens – corresponds to the reported water consumption. The waste water is disposed of in the public sewer system in compliance with statutory provisions. Potential recyclables are recycled to the greatest extent possible.

**Table 11: Water abstraction by source**

in m <sup>3</sup>	2014	2015	2016
Drinking water	5,228	2,619	2,754

Because the new building is equipped with water-saving systems, the move has resulted in a significant reduction in drinking water consumption since 2014.

**Table 12: Total weight of waste by type and disposal method**

in kg	2014	2015	2016
Recovery/recycling	9,000	25,692	19,760
Incineration document waste	15,200	11,249	14,100
Hazardous waste	1,000	–	–
Landfill	3,000	–	–
<b>Total</b>	<b>28,200</b>	<b>36,941</b>	<b>33,860</b>

The unusually high consumption value for recovery and recycling in 2015 was attributable to the shredding and destruction of files related to Deutsche Hypo's move to new offices.

In total, Deutsche Hypo's recycling rate stands at around 58.4 %. Hazardous waste is disposed of using the routes and methods prescribed by law.

## Transport

Deutsche Hypo makes every effort to reduce the environmental impact caused by employee transport and travel to the greatest extent possible. For example, the Bank's new offices feature a video conference room that is being used more frequently. However, business travel continues to be a part of the company's business activities. Rail travel remains the Bank's preferred mode of transport.

**Table 13: Overview of material environment impact caused by employee transport and travel**

in km	2014	2015	2016
Air travel	578,159	324,068	301,492
Rail travel	519,170	559,065	585,922
Car travel	690,000	519,062	707,978
<b>Total</b>	<b>1,787,329</b>	<b>1,402,195</b>	<b>1,595,392</b>

## Supplier management

### General

Deutsche Hypo is a service provider. Its core business is the sale and brokerage of banking products and advisory services. As a result, banks are not affected by the traditional supply chain risks of manufacturing companies, such as those arising in connection with the supply of commodities and raw materials.

Nevertheless, the Bank depends on the delivery of supplies and on service providers to manage and maintain its activities. Business relationships with service providers and suppliers are long term in nature. For environmental reasons, Deutsche Hypo always includes local and regional providers when sourcing services and supplies whenever possible.

The company procures, among other things:

- Building and office equipment
- Consumable materials and forms
- Electricity
- Heat and water (purchased from lessor)
- Other technology

Deutsche Hypo purchased green power for the first time in 2016. Neither further changes to the structure of the supply chain nor significant changes in main suppliers and service providers were made. Significant actual and potential negative impacts did not occur and are not expected.

### Procurement process

Administration and IT are in charge of central purchasing. This not only promotes a needs-oriented, economical purchasing process, but also ensures the ability to select all new service providers and suppliers in accordance with the Bank's corporate principles. These requirements include compliance with environmental criteria, human rights criteria and labour practices.

All procurement processes must also comply with the following guidance documents:

- Preventing other criminal actions – fraud prevention management
- Ethics principles
- Sustainability policies
- Policies on human rights and labour standards
- Data protection guidelines

Counteroffers must be solicited if the tendered offers are above a certain amount. The Bank makes use of standard contracts and general agreements when drafting contracts and agreements. Any contracts or agreements that deviate from the standard must be reviewed by the legal department. The guidelines on "Preventing other criminal actions – fraud prevention management", which are the responsibility of the compliance department, also require a separate integrity review for orders with a volume of more than € 500,000.



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EN10	There is no economically viable option at Deutsche Hypo to reuse or recycle waste water.	
EN11	Not relevant for buildings of Deutsche Hypo	
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EN23	Waste and waste water	54
EN24	Not relevant for Deutsche Hypo due to the nature of its business activities.	
EN25	Not relevant for Deutsche Hypo due to the nature of its business activities.	
EN26	The waste waters of Deutsche Hypo are treated by municipal sewage networks in sewage treatment plants.	
EN27	not disclosed	
EN28	Not relevant for Deutsche Hypo due to the nature of its business activities.	
EN29	Deutsche Hypo has not been notified of any fines or non-monetary penalties due to non-compliance with environmental laws and regulations for the year under review.	
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HR8	Deutsche Hypo is not aware of any incidents in which the rights of the indigenous population have been violated.	
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HR12	Deutsche Hypo has not received any complaints regarding human rights consequences for the year under review.	
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S03	ESG policies	29
S04	Training on compliance-relevant issues	24
S05	ESG policies	29
S06	Public policy	50
S07	For the year under review, Deutsche Hypo did not become aware of any procedures for anti-competitive behaviour or the formation of monopolies.	
S08	For the year under review, Deutsche Hypo did not become aware of any procedures for anti-competitive behaviour or the formation of monopolies.	
S09	Procurement process	56
S010	Procurement process	56
S011	Deutsche Hypo has not received any complaints regarding human rights consequences for the year under review.	

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# DEUTSCHE / HYPO

Member of NORD/LB

Deutsche Hypothekenbank  
(Actien-Gesellschaft)  
Osterstraße 31  
30159 Hannover  
Telefon +49 511 3045-0  
Telefax +49 511 3045-459  
Mail@Deutsche-Hypo.de  
www.Deutsche-Hypo.de

## Reporting period

Financial year 2016 (1 January to 31 December)

## Reporting cycle

yearly

## Contact for questions and suggestions on the report

### SIMONE HUCH

Deutsche Hypothekenbank (Actien-Gesellschaft)  
Communications and board staff  
Osterstraße 31  
30159 Hannover  
Telefon 0511 3045-583  
E-Mail: Simone.Huch@Deutsche-Hypo.de