

Annual General Shareholders' Meeting of Deutsche Pfandbriefbank AG, Friday, June 7, 2019

**Additional information regarding TOP 7:
Approval of the system of remuneration of the members of the
Management Board**

System of remuneration of the members of the Management Board: Overview (for details, please refer to pages 79 et seqq. of the Annual Report 2018)



- The remuneration of the members of pbb's Management Board is designed to incentivise **a successful and sustainable development of the company in the range of business-, risk and compensation strategy** of pbb Group. The remuneration system is designed to ensure performance – oriented payment, taking the size and the international business activities into account.

- The remuneration system as well as remuneration levels **are reviewed and monitored on a regular basis**, at least once a year by conducting benchmarks and using external consultancy. In 2018 some items in the remuneration system have been adjusted. Amongst others a clawback option for already paid variable remuneration components has been implemented (details please see page 4).

- The service contracts entered into with the members of the Management Board are comprised of the following **remunerations elements**:
 - non-performance related (monetary) remuneration plus non-cash remuneration
 - performance-related variable remuneration
 - pension commitment

System of remuneration of the members of the Management Board: Overview (for details, please refer to pages 79 et seqq. of the Annual Report 2018)



- In 2018 the **non-performance related fixed remuneration** amounted to € 500.000 gross per annum for each Management Board member.
- The performance-related variable remuneration component is determined on the basis of an individual **calculatory reference** value. This is a reference value which reflects the amount of variable remuneration attributed to a performance level of 100% on all relevant performance levels. The calculatory reference value for 2018 has been set at € 240.000 for the Chairman of the Management Board, and at € 200.000 for all other Management Board members. The variable remuneration granted to each Management Board member is capped at 150% of their individual calculatory reference value.
- Pbb's remuneration of the Management Board members (fix remuneration plus calculatory reference value) is market adequate in cross-comparison to other peers in financial industry.
- The ratio in the pbb between the remuneration of the members of the Management Board and the median of the remuneration of the employees (as of December 31, 2018), also calculated as fixed remuneration plus the calculatory reference value is factored at 7.6, which is appropriate in a market comparison (**Manager to Worker Pay Ratio**).

System of remuneration of the members of the Management Board: variable remuneration (for details, please refer to pages 79 et seqq. of the Annual Report 2018)



- The variable remuneration system of pbb's Management Board is designed to ensure transparent, performance-related remuneration dependent on the success of the company, which in turn depends in particular on long-term, challenging objectives and the development of pbb's shares.
 - The deferral portion **of the variable remuneration** for Management Board members amounts **to 60%**. The deferral period for members of the Management Board is 5 years.
 - **50% of the variable remuneration** depend on the **development of pbb's share price**.

- The amount of variable remuneration is determined on **three levels of performance**:
 - the **institution's performance**,
 - the **performance of the organisational unit (the Management Board member's respective area of responsibility/division)** and
 - the **Management Board member's individual performance**.

As part of the performance measurement, the achievement of the institution's performance objectives with a weighting of 80 %, the weighting of 10 % each to the achievement on organizational unit level and on individual level is assigned, taking into account the joint overall responsibility of the members of the Managing Board for the institution's performance and the uniform business model of pbb.

The target achievement at institutional level pertaining to the variable remuneration in 2018 depends on the institution's performance in the financial years 2016, 2017 and 2018 - each year respectively contributing 33% to overall target achievement respectively .

From this point of view, the variable remuneration also has a multi-year assessment basis and relates to the long-term success of the pbb Group.

System of remuneration of the members of the Management Board: variable remuneration (for details, please refer to pages 79 et seqq. of the Annual Report 2018)

- In accordance with regulatory requirements pursuant to the German Regulation on Remuneration in Financial Institutions (*Institutsvergütungsverordnung* – "InstVergV") for Risk Takers (which also apply to members of the Management Board), the variable remuneration set after determining the degree of target achievement (the "EPR value") is split into a **disbursement portion (40%)** and a **deferral portion (60%)**. The deferral portion further strengthens the focus of variable remuneration on **sustainable development of the company**.
 - **The disbursement portion of 40%** is at 50% **paid out in cash** when the conditions for disbursement have been met. The remaining 50% is disbursed after a retention period of one year, whereby the **amount is adjusted on the basis of the performance of the pbb share price**, in line with the sustainability component to be applied. (For details, please refer to page 83 of the Annual Report.)

Pbb has opted for virtual shares and not for a physical stock option program, as these are less complex and thus less cost-intensive, which is ultimately in the interest of the Company and thus also of the shareholders.
 - The **deferral portion of 60%** due to the members of the Management Board is subject to pro rata vesting with a deferral period of five years in total. The Supervisory Board decides annually in the five years following the determination of the EPR value and decides whether to grant one fifth of the deferral share. There is no entitlement to the relevant remuneration component until the end of the respective deferral period.
 - As soon as the members of the Management Board are entitled to the deferred remuneration component, half of the respective deferred portion is paid out in cash. Following this malus assessment, the remaining 50% of the respective deferred portion is subject to an additional one-year retention period; during this period, it is tied to the sustainable development of pbb in line with the respective sustainability component (i.e. again in line with the share price performance).
 - When granting deferral portions, the supervisory Board takes into account – as part of a retrospective review of the variable remuneration (ex-post risk adjustment) – any subsequent negative deviations affecting the performance of the institution, the organizational unit, or the individual Management Board member (back-testing), as well as unethical behavior or behavior in breach of duties, negative performance contributions within the meaning of section 18 (5) of the InstVergV (malus test), and the relevant financial conditions for disbursement (pursuant to section 7 of the InstVergV).

Variable remuneration of the members of the Management Board: adjustments 2018/2019 onwards

(for details, please refer to pages 81 et seqq. of the Annual Report 2018)

- In light of the InstVergV revision, effective August 4, 2017 pbb Group carried out a review in 2018 regarding the necessity and extent of potential adjustments of its remuneration system due to regulatory requirements; as part of the review it was also evaluated as to whether any adjustments would be useful and appropriate considering pbb Group's business model and risk situation, taking the overall market environment into account. The implementation of the identified adjustments meanwhile has been implemented.

- The focal point of the amendments was the introduction of a clawback option for variable remuneration already paid out (**Clawback**).
 - The clawback resolution was implemented for all Management Board members retroactively effective the 1st of January, 2018.
 - Based on the contractual implementation a clawback will occur in case of **material contribution** to, or **responsibility** for actions leading to **significant losses** for the institution or a **material regulatory sanction** being imposed upon the institution.
 - The same applies in the event of a **serious breach of relevant external or internal provisions** related to suitability and conduct.
 - The contractual implementation of the clawback criteria outlined in the InstVergV converts the requirements of the regulator whilst taking the particularities of the business model and the risk profile of pbb Group into account. Sustainable company success and synchronicity of company success and variable compensation are considered here as well.
 - Repayment obligation lasts from the first payment of the disbursement portion until 2 years after expiry of the deferral period (therefore up to seven years).

**Variable remuneration of the members of the Management Board:
adjustments 2018/2019 onwards
(for details, please refer to pages 81 et seqq. of the Annual Report 2018)**

- Further adjustments in the variable remuneration have been made with regard to the weighting of the performance measurement criteria.
 - Effective 2019 the achievement of the institution's performance targets is assigned a weighting of 60%, while 40% will be allocated to the divisional and individual performance on a combined basis.
 - Thereby pbb Group takes into account the regulatory requirement to balance the weighting of all the performance measurement levels. Furthermore the overall responsibility of the Management Board for pbb Group's success is still reflected appropriately.

- In addition to that, the **modifiers** of pbb measurement parameters, used to adjust the variable remuneration – within specific limits (+/- 20 percentage points) - have been changed. The modifiers have not been applied in the last years.
 - Effective 2019 modifiers will only be applied in the case of **unforeseeable and unpredictable** changes in the Bank's **external environment**, which are beyond the Bank's control.
 - For instance, the list of modifiers with a potential impact on target-achievement at institutional level includes the following items: short-term changes of regulatory requirements considered material to pbb Group, short-term fundamental macroeconomic events, one-off effects or foreign trade limitations, one off effects due to acquisition or disposal of material business units, particularly in the case of externally triggered M&A activities.

Variable Remuneration: Institution's performance for 2018 at 123%*



key performance indicators	definition	weighting	target value / range	actuals	target achievement pbb
profit before tax	<ul style="list-style-type: none"> reflects (adjusted) IFRS consolidated profit before tax (IFRS, pbb Group) reflects the overall responsibility for the success of pbb Group 	50%	150-170 Mio.€	215 Mio.€	123%*
risk-reward profile	<ul style="list-style-type: none"> net margin x average portfolio volume divided by risk weighted assets reflects customer profitability and risk allocation 	50%	2,8%	3,1%	

- The volume of variable remuneration is based on two equally weighted performance measurands: „IFRS consolidated profit before tax (adjusted)“ und the level of target achievement for the „risk-reward profile“.
- Additional modifiers, which could apply due to InstVergV have not been applied for 2018.
- The consideration of the annual result in combination with the risk-reward profile, which focuses on the profitability of the strategic portfolio taking into account the risk profile, reflects the business planning with a high reference to strategy and management as well as risk adjustment. The risk-weighted assets as part of the risk-reward profile take into account the risks incurred and their maturities and enable risk-sensitive measurement by taking expected and unexpected risks and their maturities into account.

* Target achievement relevant for variable remuneration of Management Board members for the year 2018 at institutional level depends on institution's performance for 2016 (124%), 2017 (126%) und 2018 (123%)

**Variable Remuneration: aggregated divisional and individual objectives for 2018
derived from the business and risk strategy**



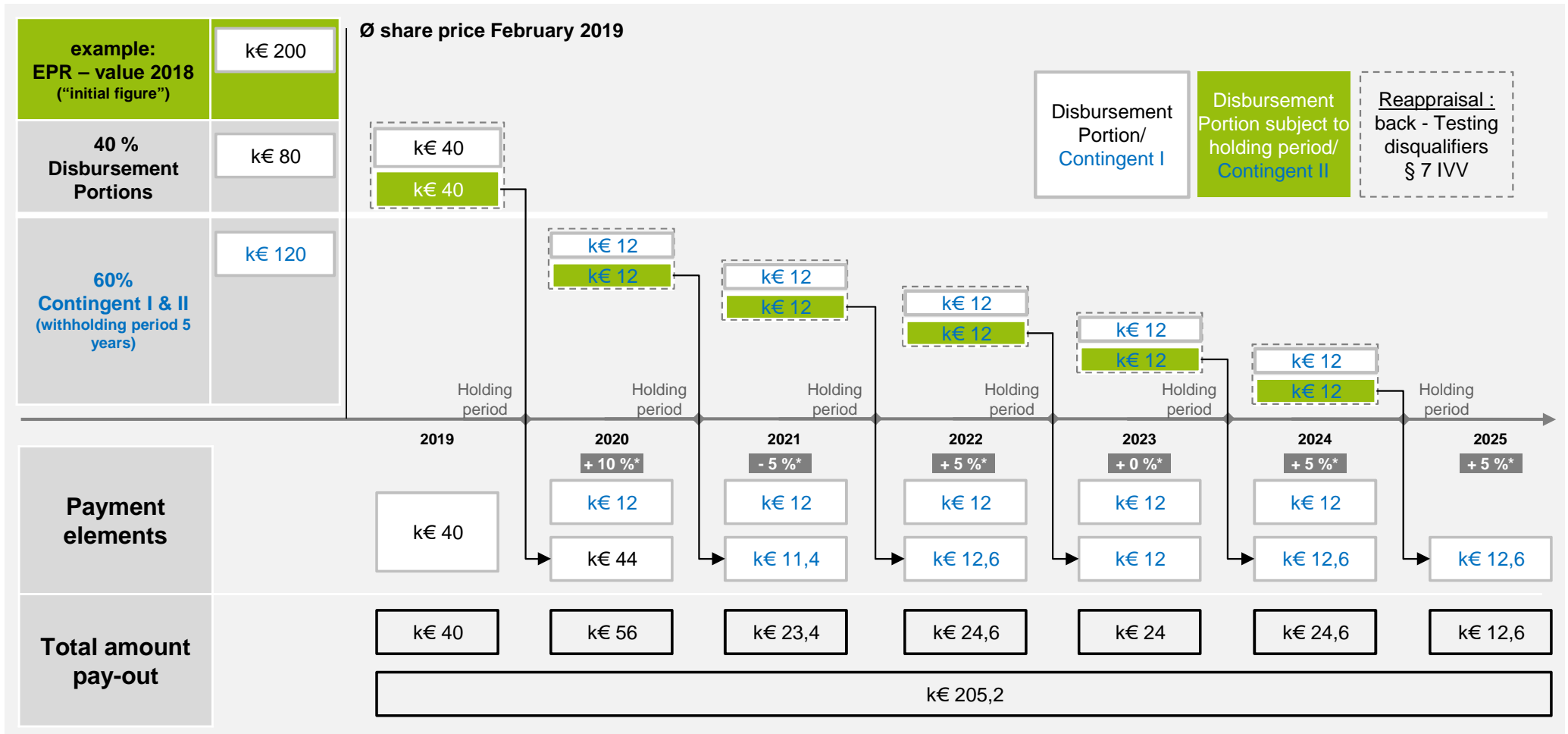
	Andreas Arndt	Thomas Köntgen	Andreas Schenk
Business	<ul style="list-style-type: none"> • Further broadening of investor base • Talent development, especially gender balance 	<ul style="list-style-type: none"> • Customer results within the Business Areas REF and PIF, measured in terms of achieving the planned targets based on KPIs average margin, new business volume and portfolio development 	<ul style="list-style-type: none"> • Constructive implementation of risk strategy in new business together with risk and origination organisation
Risk and Capital	<ul style="list-style-type: none"> • Further business development of the pbb Group 	<ul style="list-style-type: none"> • Implementation Funding Plan 	<ul style="list-style-type: none"> • Balanced risk profile according to risk strategy and planning
Projects	<ul style="list-style-type: none"> • Adjustment and updating of the Compliance function and processes as well as the IT to further developed regulatory requirements 	<ul style="list-style-type: none"> • Implementation business strategy US 	<ul style="list-style-type: none"> • Preparation for the move of pbb to Garching

Variable remuneration: divisional and individual objectives for 2019

Main focus for the year 2019

	Andreas Arndt	Thomas Köntgen	Andreas Schenk	Marcus Schulte
Business	<ul style="list-style-type: none"> Client Relationship Management Further broadening of investor base 	<ul style="list-style-type: none"> Client Relationship Management Customer results of the Business Areas REF und PIF 	<ul style="list-style-type: none"> Client Relationship Management Constructive implementation of risk strategy 	<ul style="list-style-type: none"> Client Relationship Management pbb as emitter within the capital market
Risk and Capital	<ul style="list-style-type: none"> Further business development of the pbb Group 	<ul style="list-style-type: none"> Balanced risk profile regarding new business 	<ul style="list-style-type: none"> Balanced risk profile 	<ul style="list-style-type: none"> Targets for managing interest rate and currency risks as well as liquidity Funding
Projects	<ul style="list-style-type: none"> Investment strategy Digitalisation 	<ul style="list-style-type: none"> Investment strategy Digitalisation 	<ul style="list-style-type: none"> Investment strategy Digitalisation Preparation for the move of pbb to Garching 	<ul style="list-style-type: none"> Investment strategy Digitalisation Brexit
Talent development	<ul style="list-style-type: none"> Talent development, in particular gender balance 	<ul style="list-style-type: none"> Talent development, in particular gender balance 	<ul style="list-style-type: none"> Talent development, in particular gender balance 	<ul style="list-style-type: none"> Talent development, in particular gender balance

Variable Remuneration: payment structure members of the Management Board (based on 100% objectives achievement)



* During the withholding period the disbursement portion subject to holding period & contingent II has to be linked to sustained performance of the Bank (share price pbb) and can develop either positively or negatively. Examples of positive and negative trends are used above.