

Annual General Meeting of Deutsche Pfandbriefbank AG
Thursday, 28 May 2020

Additional information:

Remuneration system for Management Board members

Remuneration system for Management Board members: Overview (for details, please refer to pages 72 et seqq. of the Annual Report 2019)



- Management Board remuneration is intended to create an incentive for **successful and sustainable corporate development** within the scope of pbb Group's **business, risk and remuneration strategy**. Performance-oriented payment is ensured, and the size of the Company as well as its international business activities are appropriately taken into account.

- The remuneration system and remuneration are **reviewed on a regular basis**, at least annually, using a market survey and involving external advisers. In terms of the horizontal remuneration review, pbb takes the following peer group into account (updated: April 2020):
 - Deutsche Hypothekbank (Actien-Gesellschaft)
 - Berlin Hyp AG
 - Münchener Hypothekbank eG
 - Aareal Bank AG
 - DZ HYP AG
 - Landesbank Hessen-Thüringen Girozentrale
 - Landesbank Baden-Württemberg
 - UniCredit Bank AG
 - Commerzbank AG
 - DZ BANK AG

- In 2018, some essential aspects of the remuneration system were revised. Among other things, a **clawback** option for variable remuneration already paid out was introduced (for details, please refer to slide 4).

- In consideration of the German Act Implementing the Second Shareholder Rights Directive (“ARUG II”) dated 19 December 2019, pbb Group will carry out a review during the financial year 2020 to assess if and to what extent the remuneration system for the members of the Management Board must be adjusted to fulfil new statutory provisions or market standards in 2021.

Remuneration system for Management Board members: Overview (for details, please refer to pages 72 et seqq. of the Annual Report 2019)



- The service contracts entered into with the members of the Management Board comprise the following **remuneration components**:
 - non-performance related (monetary) remuneration plus non-cash remuneration;
 - performance-related variable remuneration;
 - pension commitment.

- In 2019, **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 2019 remains unchanged 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 for a given year is capped at 150% of his calculatory reference value, as set out above.

- In a horizontal peer-group comparison, the remuneration for pbb's Management Board (fixed remuneration plus calculatory reference value) lies within the **market's standard range**.

- With a factor of 7.4, the **manager to worker pay ratio** – the ratio between the remuneration of the Management Board at pbb and the median of employees' remuneration as at 31 December 2019 (also calculated as fixed remuneration plus calculatory reference value) – is within an appropriate single-digit range in comparison to the market.

Remuneration system for Management Board members: Variable remuneration (for details, please refer to pages 72 et seqq. of the Annual Report 2019)



- pbb Group's variable remuneration system is based on **transparency and performance, as well as overall Group success**. The variable remuneration depends in particular on long-term and ambitious individual target figures, and the pbb share performance.
 - Overall, **60% of variable remuneration is retained** over a period of **five years**.
 - **50% of variable remuneration** depends on the **pbb share performance**.

- 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 division), and**
 - **the Management Board member's individual performance.**

As part of performance measurement, **achievement of the institution's performance targets** is assigned a weighting of 60% for 2019. **Divisional and individual performance** is assigned a **combined weight of 40%**.

The target achievement at institutional level relevant to the variable remuneration in 2019 depended on the institution's performance in the financial years 2017, 2018 and 2019 – each year contributing 33% to overall target achievement, respectively.

Hence, variable remuneration is linked to **pbb Group's long-term success**.

Remuneration system for Management Board members: Variable remuneration (for details, please refer to pages 72 et seqq. of the Annual Report 2019)



- 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 alignment of variable remuneration with the **Company’s long-term performance**

- Half of the **40% disbursement amount** is **paid out in cash** when the conditions for disbursement have been met. The remaining half is disbursed after a **retention period of one year**, after the amount was adjusted in line with the **performance of the pbb share** (for details, please refer to pages 76 et seq. of the Annual Report 2019).

pbb has opted for virtual shares rather than a physical share option programme, as this option is less elaborate and thus more cost-effective, which is ultimately in the Company’s interests.

- The **deferral portion of 60%** is subject to a **pro rata vesting** with a **total deferral period of five years**. In the five years following establishment of the EPR value, the Supervisory Board takes a resolution, every year, regarding the granting of one fifth of the deferral portion. The beneficiary may not claim the relevant remuneration component until the end of each deferral period.

As soon as the Management Board members have the right to claim a deferred remuneration component, half of the respective deferral portion is paid out in cash. Another retention period of one year applies to the other half of the respective deferral portion, during which it is subject to the performance of the pbb share (see previous explanations).

- When granting deferral portions, the Supervisory Board takes into account – as part of a retrospective review – any subsequent negative deviations affecting the performance of the institution, the organisational unit, or the individual Management Board member (back-testing) as well as unethical behaviour or behaviour in breach of duties, negative performance contributions within the meaning of section 18 (5) of the InstVergV (malus verification), and the relevant financial conditions for disbursement (pursuant to section 7 of the InstVergV).
- Therefore, in line with the common interests of investors and Management Board, **half of the variable remuneration** of Management Board members is **linked to the performance of the pbb share price** as part of the sustainability component.

Variable remuneration for Management Board members: Adjustments as of 2018/2019 (for details, please refer to pages 72 et seqq. of the Annual Report 2019)



- Effective 1 January 2018, the conditions for a clawback were contractually agreed upon with all Management Board members.
 - According to the contractual stipulations, clawbacks apply in particular if a Management Board member was significantly involved in, or was responsible for, any behaviour which led to **significant losses** or **material regulatory sanctions** for the Bank.

The same applies if a Management Board member **breached relevant external or internal provisions** related to suitability and conduct **to a serious degree**.
 - In its contractual implementation of the InstVergV criteria for clawback purposes, pbb Group considers and applies all regulatory requirements, taking the distinctive features of pbb Group's business model and risk profile into account, and reflecting the overall sustainability aspects of the Company's performance – as well as the synchronisation of Company performance and bonus payments.
 - Clawbacks may be applied up to seven years after the disbursement amount of variable remuneration was paid out.

Variable remuneration: institution's performance for 2019 yields performance factor of 111%*



| Key performance indicators | Definition | Weighting | Target value | Actual value | Overall pbb target achievement |
|----------------------------|--|-----------|-------------------|--------------|--------------------------------|
| Profit before taxes | <ul style="list-style-type: none"> reflects the profit before taxes, as reported in the financial statements (consolidated figures in accordance with IFRS) reflects the Bank's overall performance, for which the Management Board is jointly responsible | 50% | €170 mn - €190 mn | €216 mn | 111%* |
| Risk-reward ratio | <ul style="list-style-type: none"> is defined as the net margin from client business multiplied by portfolio volume, divided by risk-weighted assets reflects client profitability and risk allocation | 50% | 2.64% | 2.62% | |

- The volume of variable remuneration is determined on the basis of the two equally-weighted **metrics** “(Adjusted) profit before taxes” and “Risk-reward ratio”.
- The modifiers defined in accordance with the InstVergV, which may be applied to adjust the target achievement level by up to 20 percentage points, were not applied for 2019.
- Consideration of net income as well as the risk-reward ratio, which emphasises the profitability of the strategic portfolio and takes into account associated risk levels, reflects pbb Group's business plans and thus establishes a strong link to the strategy and management perspective, and the necessary risk adjustments. The risk-reward ratio takes risk-weighted assets into consideration, which comprises the risks assumed by pbb – and their maturities; this facilitates a risk-sensitive measurement approach, which incorporates expected as well as unexpected risks and their respective maturities.

* The target achievement at institutional level relevant to the variable remuneration 2019 for Management Board members depends on the institution's performance for 2017 (126%), 2018 (123%) and 2019 (111%).

Variable remuneration: Aggregate divisional and individual targets for 2019, derived from the business and risk strategy

OVERVIEW OF TARGET ACHIEVEMENT BY MANAGEMENT BOARD MEMBERS 2019

| | Arndt | Köntgen | Schenk | Schulte |
|----------------------------|--|--|--|---|
| Category | Divisional/individual targets | Divisional/individual targets | Divisional/individual targets | Divisional/individual targets |
| Clients | Client Relationship Management | Client Relationship Management | Client Relationship Management | Client Relationship Management |
| Dig | Digitalisation | Digitalisation | Digitalisation | Digitalisation |
| Investment | Investment strategy | Investment strategy | Investment strategy | Investment strategy |
| Talents | Talent acquisition and promotion, promotion of women and human resources development | Talent acquisition and promotion, promotion of women and human resources development | Talent acquisition and promotion, promotion of women and human resources development | Talent acquisition and promotion, promotion of women and human resources development |
| RWAs | Business development, taking prospective changes in RWA requirements into account | | Current process for prospective changes in RWA requirements | |
| Risk profile | | Balanced risk profile of new business originated | Balanced risk profile | |
| Individual Targets | IT-specific project targets | Results from client business in the REF segment – measured in terms of plan achievement, based on the KPIs of average margin, new business volume, and portfolio development | Constructive implementation of the risk strategy | Funding targets |
| Individual Targets | Further broadening of the investor base | Results from client business in the PIF segment – measured in terms of plan achievement, based on the KPIs of average margin and new business volume | pbb's successful move to Garching | pbb as an issuer on the capital markets |
| Individual Targets | | | | Targets regarding interest rate and currency risk management, liquidity management, as well as targets for the Value Portfolio, and for the banking and liquidity books |
| Individual Targets | | | | Brexit |
| Average Target Achievement | 103% | 109% | 103% | 104% |

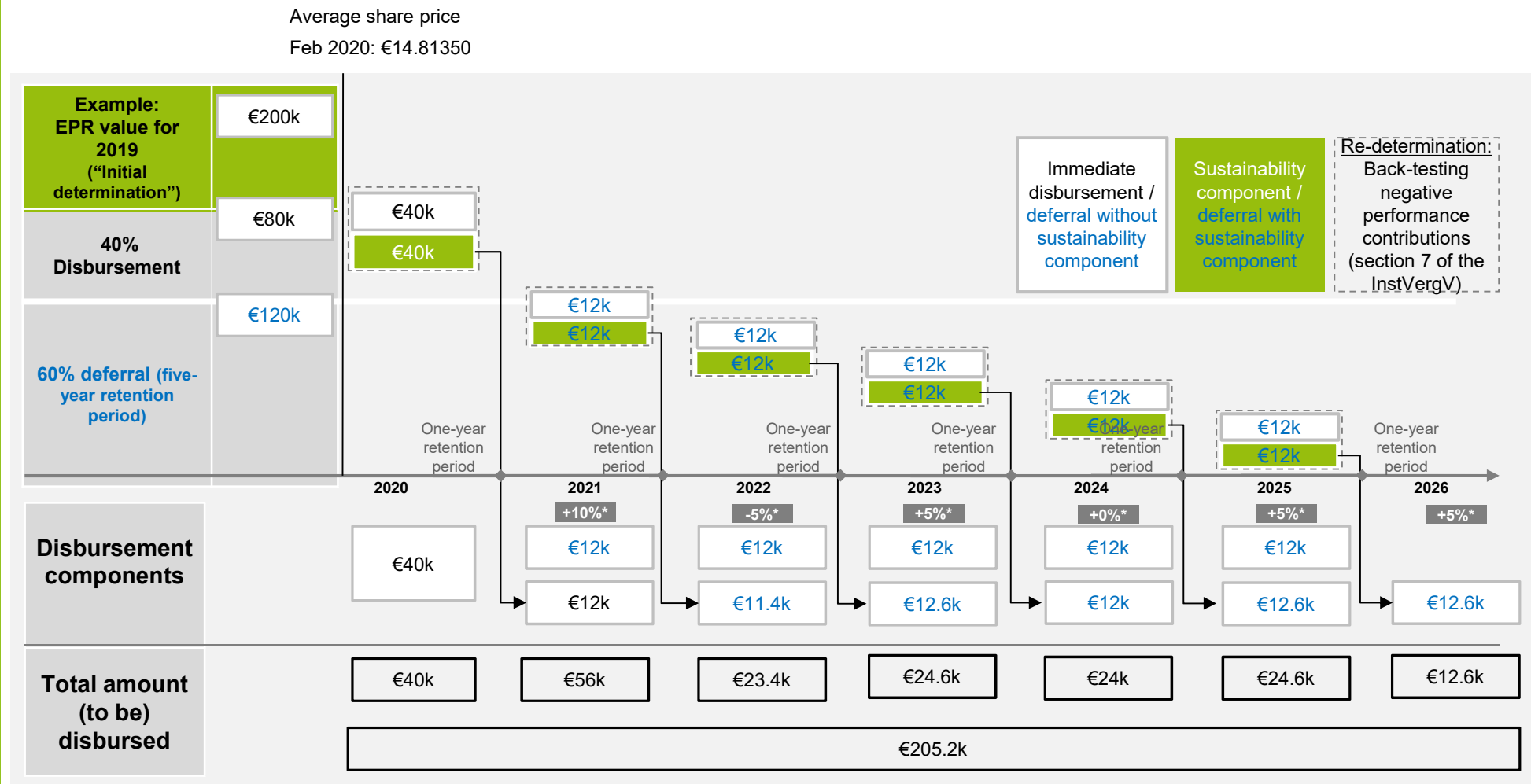
Variable remuneration: Divisional/individual targets for 2020

Thematic focus areas for 2020

| | Arndt | Köntgen | Schenk | Schulte |
|---|--|---|--|--|
| Risk models and overall Bank management | Deeply embedding the risk models in the Bank's overall management | Deeply embedding the risk models in the Bank's overall management | Deeply embedding the risk models in the Bank's overall management | Deeply embedding the risk models in the Bank's overall management |
| Digitalisation | <p>Implementation of digitalisation initiatives as transformation and efficiency drivers:</p> <ul style="list-style-type: none"> Client portal from a client perspective New products and sources of income Further development of CAPVERIANT | <p>Implementation of digitalisation initiatives as transformation and efficiency drivers:</p> <ul style="list-style-type: none"> Client portal from a client perspective and with a view to optimising the client-oriented banking processes New products and sources of income or efficiency | <p>Implementation of digitalisation initiatives as transformation and efficiency drivers:</p> <ul style="list-style-type: none"> Client portal as a starting point for more efficient credit processes, and design of a digital credit process | <p>Implementation of digitalisation initiatives as transformation and efficiency drivers:</p> <ul style="list-style-type: none"> New products and sources of income or efficiency Implementation of digitalisation initiatives in the divisional areas of IT ("Run the Bank") as well as Property Analysis and Valuation |
| Business | <ul style="list-style-type: none"> Further broadening of the investor base | <ul style="list-style-type: none"> Sales targets according to planning Balanced risk profile of new business originated, in line with risk strategy and planning | <ul style="list-style-type: none"> Constructive implementation of the risk strategy for new business, in cooperation with the risk and sales organisations Balanced risk profile of new business originated, in line with risk strategy and planning | <ul style="list-style-type: none"> Quantitative (funding according to planning) and qualitative (external representation of pbb as an issuer) funding targets Interest rate and currency risk management, as well as safeguarding liquidity Stable and efficient IT operation |
| Further strategic priorities | <ul style="list-style-type: none"> pbb as a modern employer Ecological sustainability | <ul style="list-style-type: none"> pbb as a modern employer Ecological sustainability | <ul style="list-style-type: none"> pbb as a modern employer Ecological sustainability | <ul style="list-style-type: none"> pbb as a modern employer Ecological sustainability |

Variable remuneration: disbursement structure of variable remuneration for Management Board members

(fictitious example, based on a 100% target achievement)



- During the retention period, the sustainability component and deferral with sustainability component must be linked to the Company's performance (share-based) which may have developed positively or negatively. Both positive and negative developments were used for the purposes of the example shown.