

Due to the disentanglement of the Group structure of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG, this publication is issued exclusively by Deutsche Pfandbriefbank AG.

2011 Compensation Report by the Compensation Committee
of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG

Pursuant to sections 7 and 8 of the Remuneration Regulations for Institutions

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1 Scope and objective of the Compensation Report

This report was prepared by the compensation committee of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG based on the respective provisions of the Remuneration Regulations for Institutions [Institutsvergütungsverordnung – “InstVergV”] of 13 October 2010, the Bank Restructuring Act [Restrukturierungsgesetz] of 17 October 2010, and the Master Agreement on the Implementation of Stabilizing Measures [Rahmenvertrag zur Gewährung von Stabilisierungsmaßnahmen] of 24 August 2010 and the Remuneration Principles of SoFFin (as of February 2010).

This Compensation Report refers to the compensation of the managing directors, senior staff, and employees of Hypo Real Estate Holding AG and its subsidiaries (hereinafter referred to as the “HRE Group”) for fiscal year 2011.

The compensation committee has examined the appropriateness of the structuring of the compensation systems and is providing the following report.

The issuance of this report also satisfies the requirements of section 7 and section 8 of the Remuneration Regulations for Institutions.

2 Context of the reporting period

The introduction of the HRE Group's new compensation system in 2010 was to accommodate the BaFin and FMSA (formerly SoFFin) supervisory requirements concerning compensation in banking introduced by legislatures and regulators. In particular, the regulations that must be considered by the HRE Group include:

- the Remuneration Regulations for Institutions of 13 October 2010;
- the Bank Restructuring Act of 17 October 2010; and
- the SoFFin Remuneration Principles of February 2010.

Also to be observed by the HRE Group by reason of their implementation in the Remuneration Regulations for Institutions are, at the international level, the FSB Guidelines on Compensation, Directive 2010/76/EU (CRD III) of 24 November 2010, and the CEBS Guidelines on Remuneration Policies and Practices of 10 December 2010. At the same time, the country-specific requirements must be considered by the group companies, which are largely identical in substance to the regulations introduced by the German legislature.

As conceived, the HRE Group's new compensation system provides for both fixed as well as variable compensation components. The variable compensation provisions, however, are not applicable during the time in which the Bank Restructuring Act is in force. Therefore, due to the conflict between the Remuneration Regulations for Institutions and the Bank Restructuring Act, the HRE Group cannot fulfil the requirements concerning the structuring of compensation systems to the fullest extent. In particular, positive incentives for employees by means of variable compensation are not possible. The regulations on variable compensation under the new compensation system will continue to be maintained as a target system for the time when the Bank Restructuring Act no longer applies to HRE Group. The requirements defined in the Public

Corporate Governance Codex can also not completely be fulfilled because of the Restructuring Act.

The entry into force of the Bank Restructuring Act and of the related prohibition against paying variable compensation excluded the possibility of paying market-based compensation. The elimination of the variable compensation component results in a substantial reduction of total monetary compensation. This brought about the threat of an exodus or poaching of personnel across the board, particularly of specialists and key personnel needed for a successful reorientation by the HRE Group. To ensure competitive compensation and to maintain the HRE Group's operational capability, a temporary functional allowance was introduced in 2011 with the consent of FMSA and of the supervisory board.

3 Principles and composition of the compensation system

The compensation system's basic principle is to ensure an overall compensation that is appropriate and competitive. Given the HRE Group's prohibition against paying variable compensation under the Bank Restructuring Act, the overall compensation for managers and employees currently consists solely of the fixed annual salary together with the new temporary functional allowance, and of social security and fringe benefits. As variable compensation is legally impermissible for employees of the HRE Group, there is currently no possibility of including incentives aimed at influencing behaviour or rewarding performance as part of the compensation.

3.1 Fixed compensation components

All employees of the HRE Group receive a fixed annual salary, which is generally reviewed and, if necessary, adjusted in the course of an annual standard procedure. In establishing the fixed salaries, the HRE Group is guided by a direct market comparison of the specific functions. To ensure the appropriateness and competitiveness of the fixed salaries and to comply with the regulatory requirements, the HRE Group uses the services of independent external compensation and legal advisors. In addition, the employees in principle receive a non-permanent functional allowance that is paid out monthly on a fixed basis together with the base compensation. Excepted from this are specific groups of employees (e.g., employees who have already entered into a termination agreement, employees who have entered into a partial retirement contract), who are listed individually in the respective current group-wide works agreement.

With respect to retirement benefits, the HRE Group has various company retirement pension schemes. Taking the requirements under tax and social insurance law into account, the HRE Group provides additional social insurance and fringe benefits.

The HRE Group's arrangements concerning company retirement pension schemes as well as social insurance and fringe benefits were likewise reviewed by an external compensation advisor for appropriateness and competitiveness. The analysis of the company retirement pension schemes as well as social insurance and fringe benefits shows that there are specific limited areas in each country in which the HRE Group's range of benefits could be improved.

3.2 Variable compensation components

Variable compensation is currently not permitted for the HRE Group due to section 10 (2a) of the Financial Market Stabilisation Fund Act [Finanzmarktstabilisierungsfondsgesetz – “FMStFG”].

3.3 Special payments under individual contracts

No new promises of special payments were made in the reporting year. To the extent legally required to do so, pre-existing commitments to special payments made prior to the Bank Restructuring Act but due in the reporting year were paid.

4 Governance structure in the compensation area

In line with the rules of the German Stock Corporation Act, Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG have a two-tiered organizational and management structure. It consists of the supervisory board as an independent supervisory body and the management board, which has the responsibility of running the company. The supervisory board oversees, is responsible for, and determines the compensation of the members of the management board, and the management board oversees, is responsible for, and determines the HRE Group's compensation systems and ratifies the amount and distribution of the compensation. Under the by-laws for the supervisory board of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG, the supervisory board has a reservation of rights concerning the compensation system for the employees.

Following the BaFin circular 22/2009 issued in December 2009, the management boards of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG installed a compensation committee on 22 January 2010. The compensation committee consists of representatives from the personnel area, the marketing and distribution units, and the areas of treasury/asset management and portfolio management, risk controlling and – management, compliance/corporate governance, finances, and – as a member without a voting right with respect to the tasks – a representative of the internal auditing department. The chairman of the compensation committee is the management board member with responsibility for human resources.

The compensation committee monitors the appropriateness of the compensation of the HRE Group's employees and oversees further development of the compensation system.

The compensation committee informs the management board and the supervisory board of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG of its resolutions and recommendations and prepares an annual report on the appropriateness of the compensation and submits it to the supervisory board and the management board of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG. The compensation committee also reports as needed with regard to specific events. Moreover, the chairman of the supervisory board may directly obtain information from the compensation committee.

In 2011, the compensation committee held two regular and one extraordinary meeting.

5 Disclosure of compensation data

5.1 No variable compensation in 2011

The statutory prohibition in section 10 (2a) FMStFG against paying any variable compensation for periods of performance starting on 1 January 2011 was implemented in all companies and at all sites of the HRE Group.

5.2 Disclosure of compensation data pursuant to section 7 of the Remuneration Regulations for Institutions

The total compensation that was granted amounted to EUR 135.51 million in 2011. Of this, EUR 133.91 million was in fixed compensation. The difference consists of special payments under individual contracts amounting to EUR 1.60 million.

Disclosure under section 7 InstVergV						2011	
Compensation components in EUR millions	CEO	CFO/COO	CRO	REF/PSF	T/AM	HRE Group	Number of beneficiaries
Fixed compensation	18.86	42.30	23.24	16.90	32.61	133.91	1,594
Special payments under individual contracts	0.00	0.54	0.66	0.06	0.34	1.60	121
Total compensation	18.86	42.84	23.90	16.96	32.95	135.51	1,594

The amounts are divided up among the management departments existing as of 31/12/2011.

5.3 Disclosure of compensation data pursuant to section 8 of the Remuneration Regulations for Institutions

Under section 8 of the Remuneration Regulations for Institutions, financial institutions are required to identify employees who might materially affect the risk profile, so-called risk takers, based on a risk analysis undertaken at their own responsibility. Following last year's establishment of the criteria for identifying risk takers, a study by an independent service provider showed that the HRE Group has identified a markedly higher number of risk takers compared to the market environment.

In result of a discussion of the findings from that study, the following criteria were suggested to the management board for identifying positions that might affect the risk profile (risk takers) in 2011:

- All managerial functions of the companies of the HRE Group (Hypo Real Estate Holding AG, Deutsche Pfandbriefbank AG, DEPFA Bank plc, Hypo Pfandbrief Bank International S.A., pbb Services GmbH, DEPFA ACS Bank, Hypo Public Finance Bank)
- All second-tier functions (= employees who report directly to the management board of HRE Holding)
- All other functions with voting rights on the credit committees and/or risk committees and/or risk provisioning committees and/or ALCO committees of the HRE Group.

The management boards of HRE Holding AG and Deutsche Pfandbriefbank AG have consented to the compensation committee's suggestion and have adopted the respective resolutions.

Under those criteria, a total of 70 functions were identified as “risk taker functions” for 2011. Resulting from this, 60 employees were classified as “risk takers,” with various employees holding dual functions. This amounts to a ratio of 4.2% of the workforce.

With respect to the following disclosure of compensation data, a distinction is made between risk takers and managers. It is being noted that the aforementioned 70 risk taker functions also include 15 manager functions.

The total compensation of the 45 identified “risk takers” (number excludes managers) that was granted amounted to EUR 10.46 million in 2011. Of this, EUR 10.16 million was in fixed compensation. The difference reflects the special payments under individual contracts that were paid out in the amount of EUR 0.30 million.

Disclosure under section 8 InstVergV							2011	
Compensation components in EUR millions	CEO	CFO/COO	CRO	REF/PSF	T/AM	HRE Group	Number of beneficiaries	
Fixed compensation	1.07	1.23	2.00	3.57	2.29	10.16	45	
Special payments under individual contracts	0.00	0.00	0.13	0.02	0.15	0.30	10	
Total compensation	1.07	1.23	2.13	3.59	2.44	10.46	45	

The amounts are divided up among the management departments existing as of 31/12/2011.

The total compensation of the 15 managers that was granted amounted to EUR 5.18 million in 2011. Of this, EUR 5.05 million was in fixed compensation. The difference reflects the special payments under individual contracts that were paid out in the amount of EUR 0.13 million.

Disclosure under section 8 InstVergV							2011	
Compensation components in EUR millions	CEO	CFO/COO	CRO	REF/PSF	T/AM	HRE Group	Number of beneficiaries	
Fixed compensation	0.85	1.46	0.90	0.50	1.34	5.05	15	
Special payments under individual contracts	0.00	0.05	0.08	0.00	0.00	0.13	3	
Total compensation	0.85	1.51	0.98	0.50	1.34	5.18	15	

The amounts are divided up among the management departments existing as of 31/12/2011.

In accordance with the rules under the Bank Restructuring Act, in 2011 there were no new awards granted for deferred compensation or compensation dependent on future sustained performance.

In addition, EUR 0.5 million was granted to one beneficiary under severance arrangements relating to the termination of employment that were agreed prior to the Restructuring Act. The level agreed was lower than that in the original employment agreement.

6 Impact of the Bank Restructuring Act and the appropriateness of the compensation

The elimination of the variable compensation component resulted in a reduction of the total monetary compensation. Until then, the total compensation was guided by the market and thus appropriate.

This was no longer the case following the suspension of the variable compensation component. The compensation committee determined this at its extraordinary meeting on 25 March 2011. This assessment was also confirmed by an expert report. This problem has also been reflected in operational terms in a markedly increased turnover rate in this period.

With the implementation of a non-permanent functional allowance, the personnel situation has been largely stabilized and the HRE Group's ability to hold onto knowledge workers and high performers has been significantly improved.

In result, the compensation committee finds that with the introduction of the functional allowance, the appropriateness of the compensation has been virtually ensured and that operational risks, especially the departure of further employees, have been clearly reduced.

Unterschleißheim, April 2012

Compensation Committee
of Hypo Real Estate Holding AG und Deutsche Pfandbriefbank AG