

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.

**2014 Compensation Report by the Compensation Committee
of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG**

Pursuant to section 16 of the Remuneration Regulations for Institutions

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1 Scope and Objective of the Compensation Report

This report based on the respective provisions of the Remuneration Regulations for Institutions [Institutsvergütungsverordnung – “InstVergV”] of 16 December 2013, the Bank Restructuring Act [Restrukturierungsgesetz] of 17 October 2010, and the Framework Agreement on the Implementation of Stabilising Measures [Rahmenvertrag zur Gewährung von Stabilisierungsmaßnahmen] of 24 August 2010 and the Remuneration Principles of FMSA (as of February 2012).

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 the fiscal year 2014.

The compensation Officer reviewed the adequacy of the remuneration systems and has confirmed the appropriateness, having taken into account the particularities of the legal requirements in this evaluation. He was also involved in ongoing processes of the compensation systems.

The issuance of this report also satisfies the requirements of section 16 of the Remuneration Regulations for Institutions.

2 History and 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 16 December 2013;
- the Bank Restructuring Act of 17 October 2010;
- the SOFFIN-Remuneration Principles of February 2010, as well as
- the FMSA Remuneration Principles of February 2012.

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 current 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. In this regard, the requirements defined in the

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

Any required adjustments to the new compensation system that relate to the new version of the InstitutsVergV with effect from 1 January 2014 system were analysed in 2014, thereby identifying necessary fields of action.

3 Principles and Composition of the Compensation System

The basic principle of the new compensation system is to ensure an overall compensation that is appropriate and competitive in the markets. Given the current ban on paying variable compensation under the Bank Restructuring Act, the overall compensation for managers and employees within the HRE Group currently consists solely of the fixed annual salary together with a temporary functional allowance, and of social security and fringe benefits. Aufgrund der Nichtanwendung der Regelungen zur variablen Vergütung für den Zeitraum, in dem variable Vergütung für Mitarbeiterinnen und Mitarbeiter des HRE Konzerns gesetzlich unzulässig ist, besteht derzeit somit keine Möglichkeit für monetäre verhaltenssteuernde bzw. leistungsanerkennende Anreize im Rahmen der Vergütung. In the absence of applicable regulations for variable compensation during the time in which variable compensation is legally impermissible for employees of the HRE Group, incentives aimed at financially influencing behaviour or rewarding performance as part of the compensation cannot be included for the time being.

4 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 market comparisons 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, all employees receive a non-permanent functional allowance that is paid out monthly on a fixed basis together with the base compensation to maintain the operative capacity.

In terms of retirement benefits the HRE Group has various company pension schemes in place.

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 pension schemes as well as social insurance and fringe benefits were equally reviewed by an external compensation advisor with respect to their appropriateness and competitiveness. The analysis of the company 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.

5 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"].

6 Special Payments under Individual Contracts

No new commitments to special payments were made in the reporting year. Payments to – on an individual bases – agreed prior commitments have not been done.

7 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 organisational and management structure. It consists of the supervisory board as an independent supervisory body and the management board, which has the responsibility to run the company. The supervisory board oversees, is responsible for, and determines the compensation of the members of the management board, whereas the management board oversees, is responsible for, and determines the HRE Group's compensation systems for employees 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 Human Resources, Real Estate Finance / Public Investment Finance, as well as Risk Management & Control, Board Office / Compliance, Finance and Portfolio Administration 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 divisional member of the management board holding responsibility for Human Resources.

Additionally, the supervisory board of Deutsche Pfandbriefbank AG implemented a compensation control committee in adherence to §§ 15 ff. InstitutsVergV. Furthermore, a voluntary compensation control committee formed by representatives of the Supervisory Board of HRE Holding AG ensures transparency and control as well as the assessment of appropriateness of the compensation system throughout the entire HRE Group.

8 Disclosure of Compensation Data

8.1 No variable compensation in 2014

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 in all locations of the HRE Group.

8.2 Disclosure of compensation data pursuant to section 16 of the Remuneration Regulations for Institutions

The total compensation that was granted amounted to EUR 109.44 million in 2014. Of this, EUR 109.44 million was in fixed compensation.

Disclosure under section 16 InstVergV							2014 ¹⁾
Compensation components in EUR millions	Co-CEO (AA)	Co-CEO (TK)	CRO	REF/PIF	T/AM	HRE Group	Number of beneficiaries
Fixed compensation	24.69	12.41	33.04	20.88	18.42	109.44	1,217
Special payments under individual contracts	0.00	0.00	0.00	0.00	0.00	0.00	0
Total compensation	24.69	12.41	33.04	20.88	18.42	109.44	1,217

The amounts are divided up among the management departments existing as of 31/12/2014.

¹⁾ Reported are all employees of the HRE Holding, pbb and Depfa. The annual base salary and the functional allowance are based on attendance (or to the exit date) and activity rate, employer's contributions to the social assurance was not taken into consideration.

Under section 18 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.

The risk analysis and process to identify risk taker functions was extended in 2014.

On this occasion, the criteria that were applied were based on the Regulatory Technical standards (EBA / RTS / 2013/11) as passed by the European Bank Supervision (EBA).

Under those criteria, a total of 190 "risk takers" were identified. This amounts to a ratio of 15.61 % of the workforce.

In total 183 "risk takers" were identified beside the management board of the HRE Holding and Deutsche Pfandbriefbank AG. Out of this 56 employees are Risk Takers of DEPFA and 127 of pbb. The Management Board of HRE Holding and pbb have informed the Supervisory Board about the result of this process of identification.

With respect to the following disclosure of compensation data, a distinction is made between risk takers and managers. It should be noted that the aforementioned 190 risk takers also include 12 manager functions.

The total compensation granted to the 178 identified "risk takers" (excluding managers) amounted to EUR 28.69 million in 2014, which was fully paid in fixed compensation.

Disclosure under section 16 InstVergV							2014
Compensation components in EUR millions	Co-CEO (AA)	Co-CEO (TK)	CRO	REF/PIF	T/AM	HRE Group	Number of beneficiaries
Fixed compensation	4.49	1.84	8.85	7.48	6.03	28.69	178
Special payments under individual contracts	0.00	0.00	0.00	0.00	0.00	0.00	0
Total compensation	4.49	1.84	8.85	7.48	6.03	28.69	178

The amounts are divided up among the management departments existing as of 31/12/2014.

The total compensation granted to the 12 managers amounted to EUR 3.96 million in 2014, also entirely paid in fixed compensation.

Disclosure under section 16 InstVergV							2014
Compensation components in EUR millions	Co-CEO (AA)	Co-CEO (TK)	CRO	REF/PIF	T/AM	HRE Group	Number of beneficiaries
Fixed compensation	1.56	0.12	0.74	0.50	1.04	3.96	12
Special payments under individual contracts	0.00	0.00	0.00	0.00	0.00	0.00	0
Total compensation	1.56	0.12	0.74	0.50	1.04	3.96	12

The amounts are divided up among the management departments existing as of 31/12/2014.

In accordance with the provisions under the Bank Restructuring Act, neither deferred compensation nor variable compensation dependent on sustainable future performance were paid in 2014.

9 Impact of the Bank Restructuring Act and the Appropriateness of the Compensation

In 2014, the personnel situation continues to be largely stabilised. The majority of the personnel changes were planned changes within the scope of a contract of undertaking.

As a result, the HRE Group's ability to retain knowledge bearers and high performers continues to be stable.

Unterschleissheim, March 2015

Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG