



2015 Compensation Report

2015 Compensation Report by the Compensation Committee of Deutsche Pfandbriefbank AG

Pursuant to section 16 of the Remuneration Regulations for Institutions

2015 Compensation Report

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1 Scope and Objective of the Compensation Report

This report is 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, the Framework Agreements on the Implementation of Stabilising Measures [Rahmenvertrag zur Gewährung von Stabilisierungsmaßnahmen] from both 24 August 2010, and 15 June 2015 respectively and finally on 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 Deutsche Pfandbriefbank AG and its subsidiaries (hereinafter referred to as the “pbb Group”) for the fiscal year 2015. Further relevant data on compensation can be found in the annual report of Deutsche Pfandbriefbank AG.

The compensation officer reviewed and confirmed the appropriateness of the compensation system, having taken the particularities of the legal requirements into account during this evaluation. He was also involved in ongoing processes of the compensation systems.

2 History and Context of the Reporting Period

The introduction of the pbb '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 Pbb Group include:

- the Remuneration Regulations for Institutions of 16 December 2013;
- the Bank Restructuring Act of 17 October 2010 (until the privatisation of pbb);
- the SOFFIN-Remuneration Principles of February 2010, as well as
- the FMSA Remuneration Principles of February 2012.

Also to be observed by the pbb Group by reason of their implementation in the Remuneration Regulations for Institutions of 16 December 2013 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, country-specific requirements must be considered, which are largely identical in substance to the regulations introduced by the German legislature.

As conceived, the pbb Group's new compensation system [applicable in the fiscal year 2015] provides for both fixed and variable compensation components. In light of the Bank Restructuring Act being applicable to pbb until the privatisation, the variable compensation provisions, are not

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applicable in the fiscal year 2015 and are therefore only maintained as a target system. Therefore, the regulatory requirements regarding e.g. long-term orientation, sustainability or appropriate behavioural incentive of variable compensation deriving inter alia from the Remuneration Regulations for Institutions of 16 December 2013 could still not fully be taken into account. As such, the requirements defined in the German Corporate Governance Codex can also not be completely fulfilled

Changes to the compensation system of pbb were necessary following the privatisation of pbb and the lapse of the restrictions according to Sec. 10 no. 2a and 2b FMStFG. Based on the analyses conducted in 2014 adaptations of the compensation system were made in 2015 that were appropriate to pbb's current situation and that were in line with market standards and the relevant regulatory requirements. This adapted compensation system was implemented as of the year 2016.

3 Principles and Composition of the Compensation System

The basic principle of the compensation system is to ensure an overall compensation that is appropriate and competitive in the market. In light of the Bank Restructuring Act being applicable for pbb until the privatisation and the ban on paying variable compensation under this act, the overall compensation for managers and employees within the pbb Group in the fiscal year 2015 consists of the fixed annual salary together with a temporary functional allowance, and of social security and fringe benefits. As the regulations for variable compensation are not applicable incentives aimed at financially influencing behaviour or rewarding performance as part of the compensation cannot be included for the fiscal year 2015.

4 Fixed Compensation Components

All employees of the pbb 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 pbb Group is guided by market comparisons of the specific functions, in the specific locations. To ensure the appropriateness and competitiveness of the fixed salaries and to comply with the regulatory requirements, the pbb 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 pbb Group has various company pension schemes in place.

Taking the requirements of tax and social insurance law into account, the pbb Group provides additional social insurance and fringe benefits.

The pbb 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

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their appropriateness and competitiveness. The analysis of the company pension schemes as well as social insurance and fringe benefits shows that the pbb Group's range of benefits is - on the whole - appropriate

5 Variable Compensation Components

In light of the ban on paying variable compensation being applicable for pbb under the Bank Restructuring Act until the privatisation, no claims for variable compensation accrued in 2015 and pbb did not pay any variable compensation.

6 Special Payments under Individual Contracts

No new commitments to special payments were made in the fiscal year 2015. Furthermore payments to any prior commitments were not carried out.

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 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 pbb Group's compensation systems for employees and ratifies the amount and distribution of the compensation. Under the by-laws for the supervisory board of Deutsche Pfandbriefbank AG, the supervisory board has a reservation of rights concerning the compensation system for the employees.

A remuneration officer was appointed according to § 23 InstitutsVergV.

Additionally, the supervisory board of Deutsche Pfandbriefbank AG implemented a compensation control committee in adherence to §§ 15 ff. InstitutsVergV

8 Disclosure of Compensation Data

8.1 No variable compensation in 2015

In the light of the statutory prohibition in section 10 (2a) FMStFG no variable compensation was implemented at pbb Group and no variable compensation was paid

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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 89.24 million in 2015. Of this, EUR 89.24 million was in fixed compensation.

Disclosure under section 16 InstVergV	2015 ¹⁾						
Compensation components in EUR millions	Co-CEO (AA)	Co-CEO (TK)	CRO	REF/PIF	T/AM	pbb Group	Number of beneficiaries
Fixed compensation	17,80	19,45	31,30	20,56	0,12	89,24	945
Special payments under individual contracts	0.00	0.00	0.00	0.00	0.00	0.00	0
Total compensation	17,80	19,45	31,30	20,56	0,12	89,24	945

The amounts are divided up among the management departments existing as of 31/12/2015.

¹⁾ 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.

Furthermore the following severance payments were granted in 2015

Severance payment ¹⁾	2015
	number of beneficiaries
members of the management body [Geschäftsleiter]	0
Risk Taker	1

¹⁾ As only one severance payment was granted on 2015 the amount will not be published due to confidentiality reasons.

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.

Under those criteria, a total of 99 "risk takers" were identified. This amounts to a ratio of 11,3 % of the workforce. In total 94 "risk takers" were identified beside the management board of Deutsche Pfandbriefbank AG. The Management Board of pbb have informed the Supervisory Board about the result of this identification process.

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 99 risk takers also include 5 manager functions.

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The total monetary compensation granted to the 94 identified “risk takers” (excluding managers) amounted to EUR 17,66 million in 2015, which was fully paid in fixed compensation.

Disclosure under section 16 InstVergV							2015	
Compensation components in EUR millions	Co-CEO (AA)	Co-CEO (TK)	CRO	REF/PIF	T/AM	pbb Group	Number of beneficiaries	
Fixed compensation	1,96	3,17	5,41	7,12	0,00	17,66	94	
Special payments under individual contracts	0.00	0.00	0.00	0.00	0.00	0.00	0	
Total compensation	1,96	3,17	5,41	7,12	0,00	17,66	94	

The amounts are divided up among the management departments existing as of 31/12/2015.

The total compensation granted to the 5 managers amounted to EUR 2,07 million in 2015, also entirely paid in fixed compensation.

Disclosure under section 16 InstVergV							2015	
Compensation components in EUR millions	Co-CEO (AA)	Co-CEO (TK)	CRO	REF/PIF	T/AM	Pbb Group	Number of beneficiaries	
Fixed compensation	0,48	0,48	0,48	0,50	0,12	2,07	5	
Special payments under individual contracts	0.00	0.00	0.00	0.00	0.00	0.00	0	
Total compensation	0,48	0,48	0,48	0,50	0,12	2,07	5	

The amounts are divided up among the management departments existing as of 31/12/2015.

In accordance with the provisions under the Bank Restructuring Act, neither deferred compensation nor variable compensation dependent on sustainable future performance were paid in 2015.

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

In 2015, 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 pbb Group's ability to retain knowledge bearers and high performers continues to be stable.

Unterschleissheim, March 2016

Deutsche Pfandbriefbank AG