

Performance-related variable remuneration for members of the Management Board of Deutsche Pfandbriefbank AG

Variable remuneration – overview

(for details, please refer to pages 81 et seqq. of the Annual Report 2017)



- pbb's remuneration system is designed as a **share-based remuneration system with cash settlement**, where the amount of variable remuneration is influenced by the pbb share performance as part of the sustainability components.
- The 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 2017 has been set at a uniform level of €200,000 for all Management Board members. The variable remuneration granted to each Management Board member for a given year is capped at 150% of his/her individual calculatory reference value, as set out above.
- The amount of variable remuneration is determined on **three levels of performance: (i) the institution's performance, (ii) the performance of the organisational unit (the Management Board member's respective area of responsibility/division) and (iii) the Management Board member's individual performance**.
- As part of performance measurement, considering the joint overall responsibility of Management Board members for the institution's performance and pbb's uniform business model, achievement of the institution's performance targets is assigned a weighting of 80%, with weightings of 10% each then assigned to achievement of organisational unit and individual performance targets.
- 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%)**, and disbursed as follows:
 - **50% of the disbursement portion** is **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 85 of the Annual Report.)
 - The deferral period for the deferral portion due to Management Board members is **five years**, whereby amounts are vested *pro rata temporis*.
 - As part of **annual re-determination** of deferral tranches, a **malus test** is carried out which may lead to a reduction in the deferral portion. This test incorporates **negative performance contributions** affecting the performance of the institution, the organisational unit and the individual Management Board member (back-testing), as well as any personal misconduct and the relevant financial conditions for disbursement (pursuant to section 7 of the InstVergV).
 - Following this malus test, 50% of the relevant deferral portion is subject to an additional one-year retention; it is linked during this period to pbb's sustainable development, in line with the applicable sustainability component (i.e. again in line with the share price performance).
- At present, pbb prepares adjustments to its remuneration system in order to implement the amendment to the InstVergV dated 4 August 2017 (one of the adjustments has to be made to reflect the new clawback requirements).

Variable remuneration: institution's performance for 2017 yields performance factor of 126%*



Key performance indicators	Definition	Weighting	Target achievement
(Adjusted) profit before tax	<ul style="list-style-type: none"> reflects the profit before taxes, as reported in the financial statements reflects the Bank's overall performance, for which the Management Board is jointly responsible 	50%	126%*
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%	

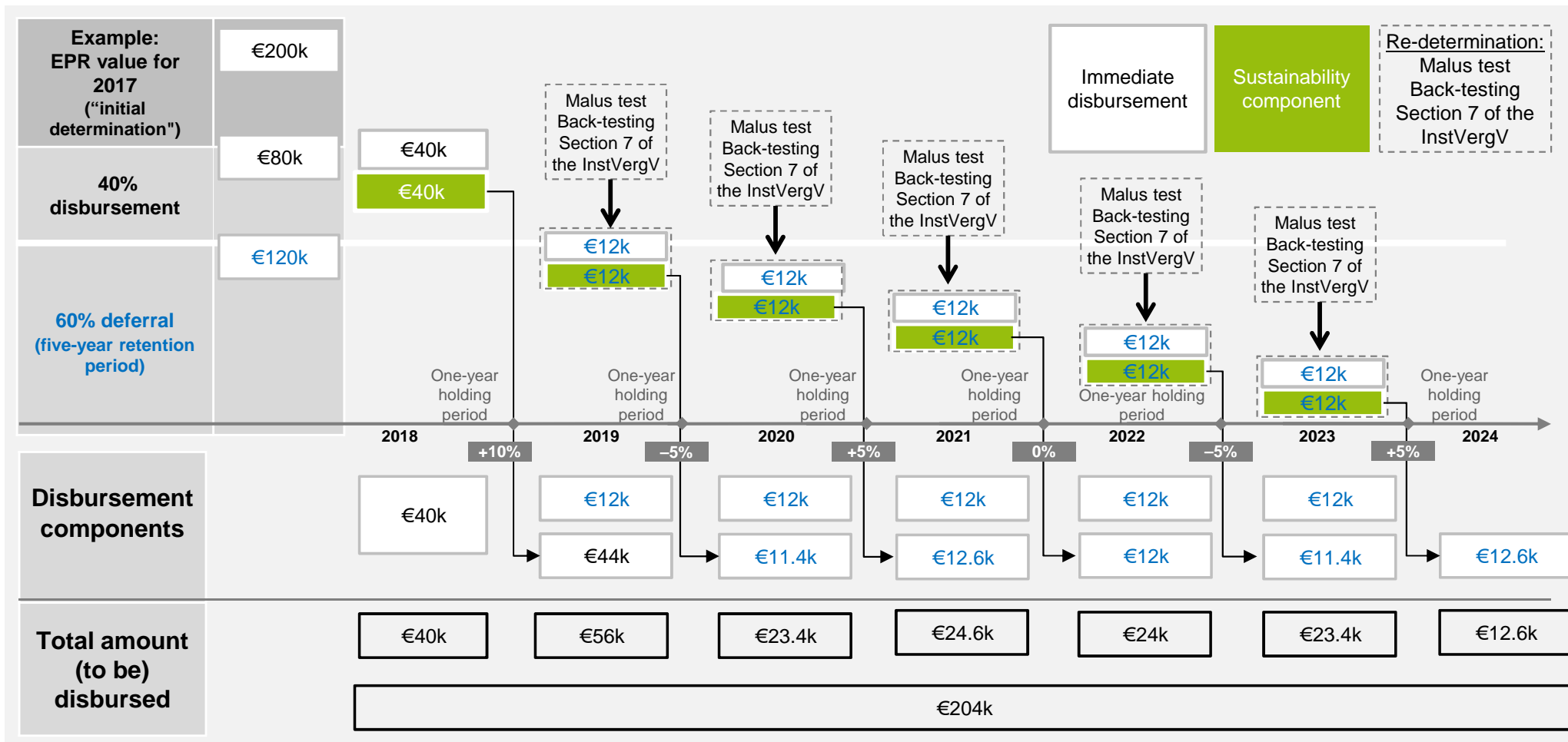
- The volume of variable remuneration is determined on the basis of the two equally-weighted **metrics** "(Adjusted) profit before tax" and "Risk-reward ratio". The modifiers defined in accordance with the InstVergV (administrative expenses / efficiency-enhancement projects, as well as the total capital ratio) which may be applied to adjust the target achievement level by up to 20 percentage points, were not applied for 2017.
- 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.
- Target achievement for pbb, in line with key performance indicators to be applied: **126%**

Variable remuneration: organisational unit/individual targets, derived from the business and risk strategy

Management Board member	Overview of material organisational unit/individual targets
Andreas Arndt	Various strategic projects and business development
	Further broadening of the investor base
	Adjustment and update of Compliance function and processes, bringing them into line with evolved regulatory requirements
	Talent promotion, with a particular focus on the promotion of female staff
Thomas Köntgen	Results from client business in the REF and PIF segments – measured in terms of plan achievement, based on the KPIs of average margin, new business volume, and portfolio development
	Implementation of funding plan
	Diversified and broad-based investor base and product range
Andreas Schenk	Balanced risk profile of new business originated, in line with risk strategy and planning
	Constructive implementation of the risk strategy for new business, in cooperation with the risk and sales organisations
	Compliance with regulatory requirements
	Promotion of junior staff and talent promotion
Dr Bernhard Scholz (until 30 April 2017)	Average margin on the existing PIF portfolio (including commissions), average new business margin, new business and portfolio volume in the PIF segment
	Implementation of the FRITZ project, on schedule and on budget

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

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



* Within the framework of the sustainability component, variable remuneration is adjusted in line with the share price performance, which may have developed positively or negatively. Both positive and negative developments were used for the purposes of the example shown.