

Annual General Meeting of Deutsche Pfandbriefbank AG

Wednesday, 12 May 2021

Additional information:
Remuneration system for Management Board members

Remuneration system for Management Board members: Overview

(for details, please refer to TOP 7 and pages 73 et seqq. of the Annual Report 2020)



- 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**. In accordance with the regulatory requirements and market practices for capital market-oriented (listed) financial institutions, the remuneration system is consistently geared towards an appropriate and sustainable remuneration policy and reacts directly and sensitively to changes in business and risk.

- 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 members of the Management Board's individual performance.**

As part of performance measurement, **achievement of the institution's performance targets** is assigned a weighting of **60%** for 2020. **Divisional and individual performance** is assigned a **combined weight of 40%**.

The target achievement at institutional level relevant to the variable remuneration in 2020 depended on the institution's performance in the financial years 2018, 2019 and 2020 – each year contributing one third to overall target achievement, respectively.

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

The annual targets take into account the **requirements for sustainable development of the company** and include two Environmental, Social and Corporate Governance (ESG) targets for 2020 and 2021 for each member of the Management Board.

Remuneration system for Management Board members: Overview

(for details, please refer to TOP 7 and pages 73 et seqq. of the Annual Report 2020)



- 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 2020).

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 and its stakeholders 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 members of the Management Board 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 member of the Management Board (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 the members of the Management Board is **linked to the performance of the pbb share price** as part of the sustainability component.

Remuneration system for Management Board members: Overview

(for details, please refer to TOP 7 and pages 73 et seqq. of the Annual Report 2020)



- Effective 1 January 2018, the conditions for a clawback were contractually agreed upon with all members of the Management Board.
 - According to the contractual stipulations, clawbacks apply in particular if a member of the Management Board 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 2020 yields performance factor of 90%*



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	€154 mn	90%*
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%	2.75%	2.73%	

- 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 2020.
- 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 2020 for members of the Management Board depends on the institution's performance for 2018 (123%), 2019 (111%) and 2020 (90%).

Variable remuneration: Aggregate divisional and individual targets for 2020, derived from the business and risk strategy

OVERVIEW OF TARGET ACHIEVEMENT BY MEMBERS OF THE MANAGEMENT BOARD 2020

	Andreas Arndt	Thomas Köntgen	Andreas Schenk	Marcus Schulte
Category	Divisional/individual targets	Divisional/individual targets	Divisional/individual targets	Divisional/individual targets
Dig	Implementation of digitalisation initiatives as transformation and efficiency drivers	Implementation of digitalisation initiatives as transformation and efficiency drivers	Implementation of digitalisation initiatives as transformation and efficiency drivers	Implementation of digitalisation initiatives as transformation and efficiency drivers
ESG (1)	Ecological sustainability	Ecological sustainability	Ecological sustainability	Ecological sustainability
ESG (2)	pbb as a modern employer; talent acquisition and promotion, promotion of women and human resources development	pbb as a modern employer; talent acquisition and promotion, promotion of women and human resources development	pbb as a modern employer; talent acquisition and promotion, promotion of women and human resources development	pbb as a modern employer; talent acquisition and promotion, promotion of women and human resources development
RWA	Embedding the risk models in the Bank's overall management	Embedding the risk models in the Bank's overall management	Embedding the risk models in the Bank's overall management	Embedding the risk models in the Bank's overall management
Individual Targets	Further broadening of the investor base	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	Quantitative (funding according to planning) and qualitative (external representation of pbb as an issuer) funding targets
Individual Targets		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	Balanced risk profile	Interest rate and currency risk management, as well as safeguarding liquidity
Individual Targets				Stable and efficient IT operation
Average Target Achievement	104%	100%	103%	105%
Range of Target Achievement	90%-115%	90%-105%	90%-110%	90%-115%

Variable remuneration: Divisional/individual targets for 2021

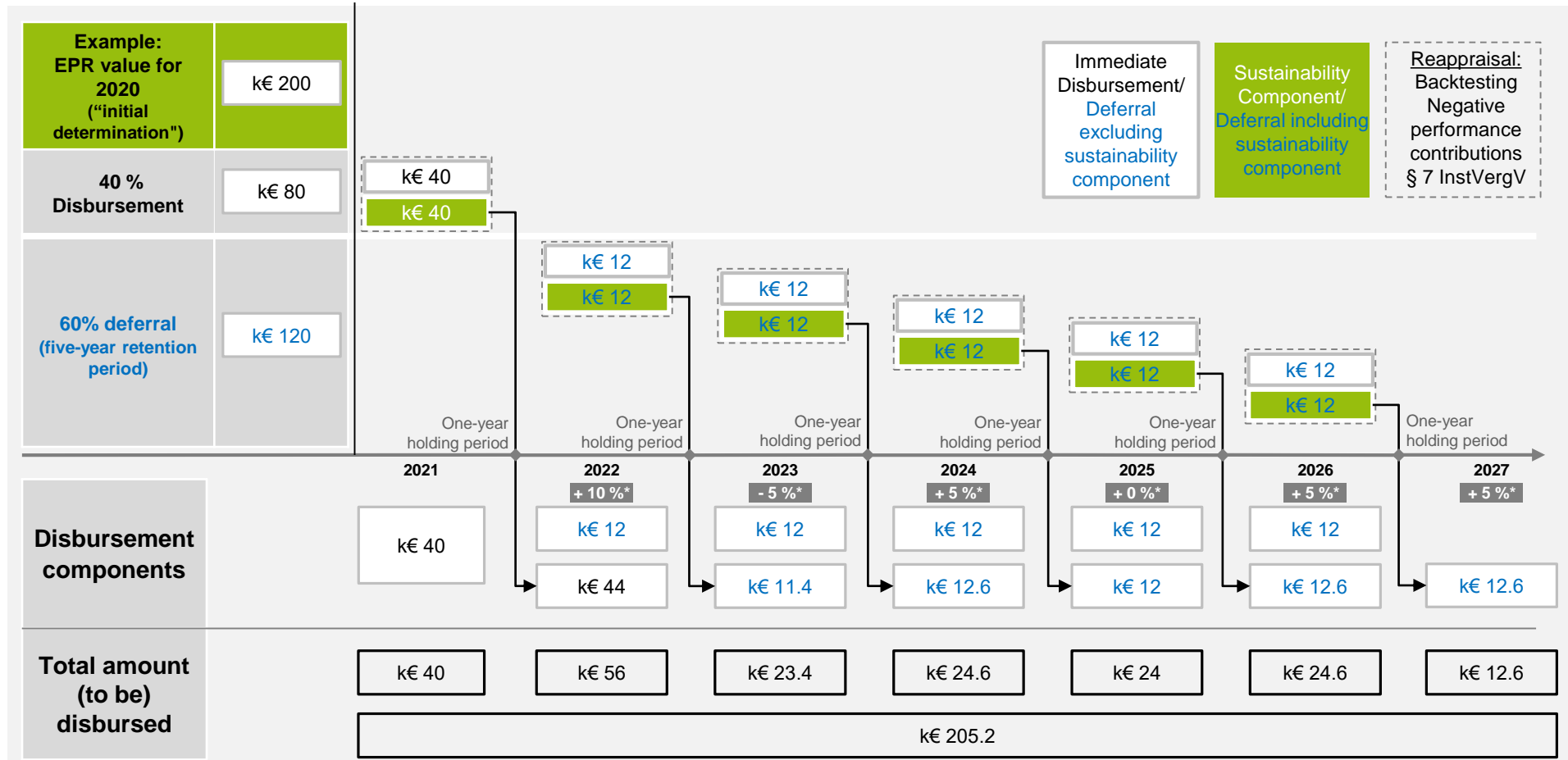
Thematic focus areas for 2021

	Andreas Arndt	Thomas Köntgen	Andreas Schenk	Marcus Schulte
Managing the impact of the COVID 19 pandemic	<ul style="list-style-type: none"> Impact and monitoring of the COVID 19 pandemic on business strategy and risk management Prevention management and securing the Bank's ability to act 	<ul style="list-style-type: none"> Impact and monitoring of the COVID 19 pandemic on new business selection and business strategy Prevention management and securing the Bank's ability to act (special focus on international branches) 	<ul style="list-style-type: none"> Impact and monitoring of the COVID 19 pandemic on risk monitoring and risk management Prevention management and securing the Bank's ability to act 	<p>Prevention management and ensuring the Bank's operational stability and ability to act (IT and staff):</p> <ul style="list-style-type: none"> Leadership of the crisis management team and staff communication Communication with supervisory authorities regarding pandemic measures
Risk models & the Bank's overall management	Embedding the risk models in the Bank's overall management	Embedding the risk models in the Bank's overall management	Embedding the risk models in the Bank's overall management	Embedding the risk models in the Bank's overall management
Digitalisation	<p>Concept/design of the digitalisation initiatives:</p> <p>In particular, further implementation of the customer portal, work packages for a digital credit workplace and further development of Capveriant.</p>	<p>Implementation/design of the digitalisation initiatives:</p> <p>In particular, further implementation of customer portal, work packages for a digital credit workplace as well as PEGA (digital KYC/onboarding process)</p>	<p>Implementation/design of the digitalisation initiatives:</p> <p>In particular, further implementation of customer portal, work packages for a digital credit workplace as well as PEGA (digital KYC/onboarding process)</p>	<p>Implementation/design of the digitalisation initiatives:</p> <p>In particular, further implementation of customer portal and work packages for a digital credit workplace as well as successful integration/extension in the existing IT architecture/infrastructure.</p>
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 members of the Management Board

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

Ø Share Price
Feb. 2021: €8.358



* 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.