

# Disclosure\*



Pursuant to Sections 7 and 8 of German Regulation on the  
Statutory Supervisory Demands Placed on Institutional  
Compensation Systems  
for 2012

**DZ BANK AG**

\*Legally binding is only the version in *German*

# CONTENTS

## 1. Compensation principles at DZ BANK AG

## 2. The current compensation systems at DZ BANK AG

- 2.1. Compensation systems for staff members with non-collectively negotiated salaries (NCN compensation system)
- 2.2. Compensation system for index-linked NCN staff members
- 2.3. Compensation system for staff members with collectively negotiated salaries (CN compensation system)
- 2.4. Compensation system for Risk Takers
- 2.5. Compensation system for the Foreign Branches
- 2.6. Compensation system for members of the Board of Managing Directors

## 3. Quantitative disclosure

## 1. Compensation principles at DZ BANK AG

Compensation is a central personnel management instrument at DZ BANK. The objectives of DZ BANK's compensation structure are:

- ...by setting goals that are derived from the corporate strategy and handed down in a cascaded manner, to give each individual staff member an incentive to implement DZ BANK's strategic goals sustainably and each individual business division the opportunity to make a distinct contribution;
- ...to reward good performance without creating incentives to assume undesired risk positions; and
- ... to attract and motivate talented staff members and promote their loyalty to DZ BANK.

To attain these goals, DZ BANK offers a fixed salary that is generally also topped up by a variable salary component.

The variable salary component is in a reasonable relationship to the fixed salary and not only takes into account the individual performance of the staff member, but also the results of the business division and company as a whole.

Regular appraisal meetings with supervisors allow staff members to discover where they stand in terms of attaining their individual goals and which changes could be constructive for their own personal development. In this connection, it is important to assess every aspect of a staff member's work performance and abilities.

In addition to the staff members' salary payments, DZ BANK also offers non-monetary benefits that are in accord with national customs.

Once a year, a Compensation Committee reviews the company's compensation systems in terms of their structures and appropriateness. The Compensation Committee consists of one Head of Division from each area of board responsibility and is coordinated by the HR Division. The Audit Division, the Legal Division and the Compliance Office are involved in the scope of their respective responsibilities. Suggestions for further developing the compensation structure and new systems are also presented to the Committee for debate. Once a year, the Compensation Committee prepares a Compensation Report for the Board of Managing Directors and Supervisory Board. Insofar as necessary, the Compensation Committee also reports on an ad-hoc basis. The Chairman of the Supervisory Board has a direct right to information from the Compensation Committee.

The Board of Managing Directors is responsible for the constitution of the compensation systems. The Supervisory Board is responsible for the compensation system for the members of the Board of Managing Directors.

DZ BANK is committed to the principles of sustainable, motivating and performance-orientated compensation. Legal and statutory supervisory guidelines are taken into account in the compensation systems in doing so.

## 2. The current compensation systems at DZ BANK AG

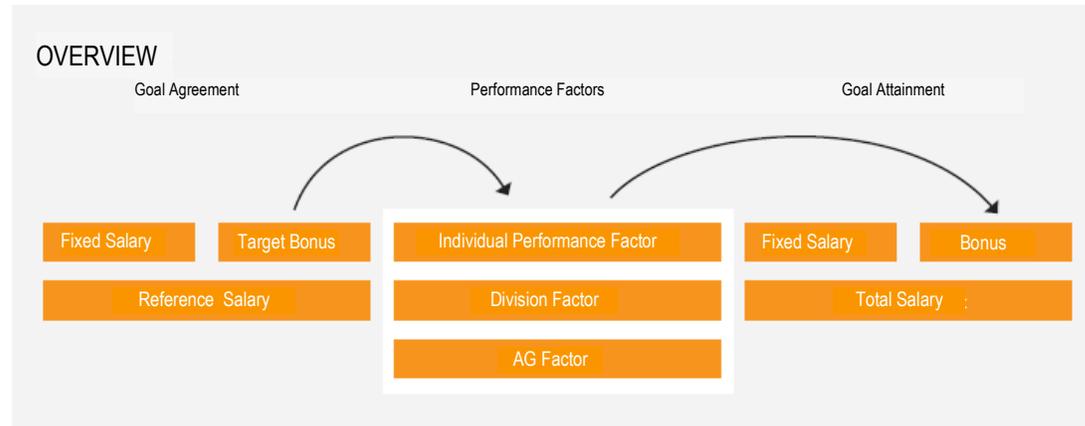
The ideas behind the compensation concept are to reward staff members' performance and results befittingly and to offer a performance incentive based on a fixed salary and variable income component: good performance should be worthwhile.

At DZ BANK, the same compensation systems are valid for all business divisions in Germany. The differences between non-collectively and collectively negotiated salaries are shown below. Regulatory guidelines require different systems to be applied to the salaries of Board Members and Risk Takers. The compensation systems for the foreign branches are described in Section 2.5.

The staff member's individual performance is one of the factors used to calculate the level of the variable component. The result of the business division concerned and result of DZ BANK as a whole are further influencing factors. In this way, not only is a high level of individual motivation recognised, but it is also ensured that staff members have a strong personal interest in actively contributing towards the successful future of DZ BANK.

External consultants and interest groups are involved in the design of the compensation systems if necessary. In 2012, no external consultant was involved in the design of compensation systems.

DZ BANK's compensation systems are characterised by the following terms:



**FIXED SALARY:**

The fixed component of the annual salary

**TARGET BONUS:**

The amount agreed between staff member and supervisor which serves as the assessment basis for the bonus

**REFERENCE SALARY:**

Fixed Salary + Target Bonus

**INDIVIDUAL PERFORMANCE FACTOR**

Performance index established on the basis of the individual's personal Goal Attainment

**DIVISION FACTOR**

A factor fixed by the Board of Managing Directors based on the result of the business division. For Board Member staff employees, this factor is calculated as the average of the Division Factors of the subordinated business divisions.

**AG FACTOR:**

A factor fixed by the Board of Managing Directors based on the result of the Bank as a whole.

**BONUS**

Variable salary component calculated from Performance Factors and Target Bonus

**TOTAL SALARY**

Fixed Salary + Bonus

## 2.1 Compensation systems for staff members with non-collectively negotiated salaries (NCN compensation system)

The compensation system for staff members with non-collectively negotiated (NCN) salaries is characterised by twelve fixed salary instalments paid at monthly intervals, as well as a contractually fixed performance- and result-oriented compensation component (Target Bonus) and a job evaluation process (Responsibility Levels).

The NCN compensation system applies to all of the Bank's staff members in Germany who do not receive contractually negotiated salaries. Managerial staff members are contractually bound to the NCN compensation system.

### **Responsibility Level system**

Each NCN appointment at DZ BANK is assessed on the basis of the criteria Knowledge / Ability, Problem Solving and Responsibility and Strategic Relevance and assigned to one of five Responsibility Levels. The percentage share of the Target Bonus and the lower and upper limit for the staff member's compensation are dependent on the allocated Responsibility Level.

The Bank can define special markets according to the market situation (e.g. market divisions) for individual divisions, departments, groups and individual positions. The upper limits for the variable salary component result from the individual target bonus agreements and the upper limits for the bonus factors.

The salary bandwidths for each Responsibility Level are reviewed annually and adjusted as deemed necessary. The adjustments are made based on the Bank's market positioning and earnings situation as well as the macroeconomic development.

### Agreement of Target Bonus

The variable compensation component is fixed individually by means of an agreement on the Target Bonus – in the framework of the Responsibility Level concerned. This agreement is reached between the supervisor and staff member.

### Goal Agreement and Goal Attainment

The basis for transparent, verifiable and objective performance appraisal – and therefore for fixing the individual Performance Factors – is an actively implemented Goal Agreement Process. DZ BANK's Goal Agreement System centres on the principle of "Management by Objectives" and is thus an important component of the variable compensation system. By 1<sup>st</sup> March of each year, the staff member and supervisor mutually agree on three to five individual, concrete, demanding and measurable goals. These are assigned weighting factors and saved with deadlines.

The calculation of the bonus not only pursues the goal of acknowledging a staff member's high individual commitment, but also of enabling the staff member to participate actively in the development of the business division concerned and DZ BANK as a company. For this reason, division and company goals are additionally drawn on for calculating the bonus. The determination and magnitude are shown and explained in the following graphic.

Performance Factors	Individual Performance Factor	Division Factor	AG Factor
Range:	0.5 - 1.8	0.8 - 1.2	0.8 - 1.2
Determination:	Meeting with supervisor within framework of annual appraisal meeting; is determined based on attainment of weighted individual targets	Suggested by Head of Division; the responsible Board Member defines the factor in coordination with the Entire Board of Managing Directors	Determined by Entire Board of Managing Directors

The highest range in the individual performance factor enables the staff member to have a strong direct influence on the extent of the bonus.

### Calculation of the variable component

After the Target Bonus has been fixed, the Individual Performance Factor is established. The degree to which the staff member's goals have been attained is used to calculate the Target Bonus in the course of the annual Appraisal Talk – which must be held by no later than 28<sup>th</sup> February of the respective following year. The Division and AG Factors are determined by 31<sup>st</sup> March of the respective following year and the bonus is calculated using the following formula:

$$\text{Bonus} = \text{Target Bonus} \times \text{Individual Performance Factor} \times \text{Division Factor} \times \text{AG Factor}$$

This bonus is paid with the April payroll of the year following the financial year under assessment. The fixed salary is paid in twelve identical, monthly instalments.

## 2.2 Compensation system for index-linked NCN staff members

Until 2004, the compensation system for index-linked NCN staff members was the regular compensation system for NCN staff members of DZ BANK AG. The switchover to the current system was voluntary.

It differs from the current system described in Section 2.1 in two areas:

- The development of the fixed salary is linked to the collectively negotiated (CN) wage settlements. CN salary increases are thus passed on automatically.
- Index-linked NCN staff members do not generally have an entitlement to a variable compensation component. As a result of salary adjustments since 2004, Target Bonuses have however been introduced for a number of staff members covered by this system. In these cases, the bonuses are calculated in accordance with the procedure described in Section 2.1.

## 2.3 Compensation system for staff members with collectively negotiated salaries (CN compensation system)

The collectively negotiated compensation system applies fundamentally to all staff members who are compensated with collectively negotiated salaries at any DZ BANK location in Germany. Excluded from this are persons in marginal employment and staff members participating in training- and junior staff qualification programmes.

### Components of the compensation structure

The annual salary of CN staff members consists of the following components:

- 12 monthly salary instalments
- 1 special payment (13<sup>th</sup> month's salary)
- Bonus
- Additional Bonus

### Monthly salary instalments

The monthly salary is orientated towards the CN tariff group (TG 1 to TG 9) concerned and the corresponding number of years of employment. The monthly salary amount can be found in a table under the point "Salary Agreement" for the Cooperative Banks and Cooperative Central Institutions (Gehaltstarifvertrag für die Volksbanken und Raiffeisenbanken sowie die Genossenschaftlichen Zentralbanken).

CN Tariff Table 2012 (in EUR):

Year of employment	TG 1	TG 2	TG 3	TG 4	TG 5	TG 6	TG 7	TG 8	TG 9
In 1 <sup>st</sup> – 2 <sup>nd</sup>	1,983	2,052	2,153	2,248	2,338				
In 3 <sup>rd</sup> – 4 <sup>th</sup>	2,093	2,181	2,261	2,361	2,464	2,598			
In 5 <sup>th</sup> – 6 <sup>th</sup>	2,202	2,302	2,365	2,474	2,591	2,756	2,944		
In 7 <sup>th</sup> – 8 <sup>th</sup>	2,338	2,452	2,469	2,586	2,721	2,915	3,141	3,395	
In 9 <sup>th</sup>			2,603	2,701	2,849	3,078	3,332	3,612	3,890
In 10 <sup>th</sup>				2,812	2,974	3,244	3,529	3,829	4,134
In 11 <sup>th</sup>					3,112	3,409	3,723	4,049	4,378

The monthly salary is paid in twelve monthly instalments.

Other additional components of the monthly salary can be supplemental CN and/ or NCN payments.

### **Special Payment**

A further compensation component is an annual Special Payment. The amount of the Special Payment is orientated towards the Tariff Agreement ("13<sup>th</sup> Month's Salary"). It currently amounts to a full monthly salary.

### **Bonus**

The Bonus is the performance-linked part of the compensation system. It is based on a Target Bonus amounting to 75 percent of one month's salary multiplied by three factors analogously to the NCN compensation system:

- Individual Performance Factor
- Division Factor
- AG Factor

The Bonus is calculated analogously to the procedure outlined in Section 2.1 for the NCN Compensation Model.

### **Additional Bonus**

The payment of the Additional Bonus is dependent on the overall success of DZ BANK. Through this, staff members participate directly in favourable company results. In concrete terms, this means that for an AG Factor of 1.0 or higher, an Additional Bonus amounting to 25 percent of one month's salary is paid out to CN staff members. If the AG Factor is less than 1.0, the Additional Bonus is struck in principle. The Entire Board of Managing Directors may however voluntarily grant the Additional Bonus, even if the stated prerequisites have not been fulfilled.

## 2.4 Compensation system for Risk Takers

Risk Takers were identified in the framework of a risk analysis pursuant to Section 5 (1) Sentence 1 of the German Institutional Compensation Bylaw (Instituts-Vergütungsverordnung). Beneath the Board of Managing Directors level, a total of ten Risk Taker positions were identified on the basis of a criterion catalogue. The criterion catalogue took into account the size, activity type, business volume, level of risk and their profits as a business division. Within the identified business divisions, the Heads of Division were universally defined as Risk Takers. Beneath the Head of Division level, no individual staff member was identified as a Risk Taker on the basis of job position, activity, decision-making competence or compensation amount / structure.

The Total Bonus is calculated analogously to the system for NCN staff members, whereby risk-adjusted goals are also agreed.

The bonus payment was adjusted to bring it in line with the provisions of the German Institutional Compensation Bylaw. Only 20 percent of the attained bonus is paid out directly in the following year. The payments of the remaining 80 percent of the bonus are stretched out over a total period of up to four years, while taking deferral and retention time limits into account. In this connection, all amounts earmarked for delayed payment are tied to DZ BANK's sustained growth. Negative profit contributions are taken into account when setting the bonus and for setting the prorated deferrals. This can lead to a dwindling or total lapsing of the variable compensation.

When there are major changes to the organisational structure (creation of new divisions, merger of divisions), the Bank checks if the number and definition of Risk Takers has to be changed.

## 2.5 Compensation system for the Foreign Branches

DZ BANK's international compensation structures are organised on a decentralised basis. Besides a fixed salary and fringe benefits that are typical for the local market, various variable components are paid which vary from those of the systems in Germany.

### Foreign Branch bonus arrangements

<b>New York</b>	<p><u>Target bonus system</u></p> <p>Bonus payment: 100% in March of the year following the financial year under assessment.</p> <p>Calculation: discretionary based on individual performance and branch office, division and bank's results</p> <p><u>Profit Participation Plan (PPP) for SFP (Project Finance)</u></p> <ul style="list-style-type: none"> <li>• Bonus payment: 75% in March of the year following the financial year under assessment; the remaining 25% are paid out in the three following years</li> <li>• Calculation: depending on net income after risk adjustment (RANI) of the department</li> </ul>
<b>London</b>	<ul style="list-style-type: none"> <li>• Discretionary bonus payment, no target bonus system</li> <li>• Bonus suggestions are orientated towards the following criteria: <ul style="list-style-type: none"> <li>- Local market conditions</li> <li>- Internal and external salary comparisons</li> <li>- Bank's result</li> <li>- Branch office's result</li> <li>- Department / group result</li> <li>- Individual Goal Attainment</li> <li>- Distinction between bonus amounts for front- and backend office units</li> </ul> </li> </ul>
<b>Singapore</b>	<ul style="list-style-type: none"> <li>• Discretionary bonus payment, no target bonus system</li> <li>• Bonus suggestions are orientated towards individual performance and division performance as well as towards bonuses being paid on the market</li> </ul>
<b>Hong Kong</b>	<ul style="list-style-type: none"> <li>• Discretionary bonus payment, no target bonus system</li> <li>• Bonus suggestions are orientated towards individual performance as well as towards bonuses being paid on the market</li> </ul>

Four business divisions (Capital Markets International Clients, Capital Markets Equity Clients, Capital Markets Trading and since 2012 Group Treasury) also use the German NCN compensation system (as described in Section 2.1) internationally and thus deviate from location-specific rules. Also the bonuses of the Foreign Branch General Managers are calculated in accordance with the NCN compensation system. In this case, the Division Factor is replaced by a Branch Factor.

## 2.6 Compensation system for members of the Board of Managing Directors

The Compensation System for Members of the Board of Managing Directors not only provides for a fixed salary, but also for a variable compensation (“bonus”) amounting to a maximum of 20 percent of total compensation.

The variable compensation of the Board of Managing Directors is determined by a maximum attainable bonus. To measure the level of the bonus, quantitative and qualitative goals are derived from the corporate strategy in the form of group, bank, department and individual goals. The maximum bonus is set upon full attainment of the respective individual goals.

The variable compensation is paid in accordance with the system for the Risk Takers. Only 20 percent of the attained bonus is paid out directly in the following year after approval of the annual accounts and assignment by the Supervisory Board. The payments of the remaining 80 percent of the bonus for the preceding business year are stretched out over a total period of up to four years, while taking deferral and retention time limits into account. In this connection, all amounts earmarked for delayed payment are tied to DZ BANK’s sustained growth. Negative profit contributions are taken into account when setting the bonus and for setting the prorated deferrals. This can lead to a dwindling or total lapsing of the variable compensation.

### 3. Quantitative disclosure

In accordance with Sections 7 and 8 of the German Institutional Compensation Bylaw, this Section contains information about the amount and distribution of compensation at DZ BANK. The cut-off date for the Fixed Salary is 31<sup>st</sup> December 2012. The Variable Compensation for 2012 was paid in April 2013. The following tables refer to all active staff members, excluding junior staff. The number of staff members with Variable Compensation in 2012 includes employees who have left the company in 2012. The share of the Target Bonus, which is not at the discretion of the Bank due to the lower factor limits, is part of the Fixed Salary and is recorded as such in the following tables.

#### Staff members (excluding Board of Managing Directors)

	Amount (in € m)	Percent	Number
Fixed compensation (all business segments)	294.4	80%	4,074
Variable compensation (all business segments)	75.1	20%	3,886
<b>Total compensation (all business segments)</b>	<b>369.5</b>	<b>100%</b>	<b>4,074</b>
<b>Corporate Management Business Segment</b>			
Fixed compensation	49.8	87%	849
Variable compensation	7.6	13%	678
<b>Total compensation</b>	<b>57.4</b>	<b>100%</b>	<b>849</b>
<b>Verbund and Central Services Business Segment</b>			
Fixed compensation	13.1	82%	169
Variable compensation	2.8	18%	197
<b>Total compensation</b>	<b>15.9</b>	<b>100%</b>	<b>197</b>
<b>Risk and Process Management Business Segment</b>			
Fixed compensation	103.2	87%	1,607
Variable compensation	14.9	13%	1,578
<b>Total compensation</b>	<b>118.1</b>	<b>100%</b>	<b>1,607</b>
<b>Corporate and Investment Banking Business Segment</b>			
Fixed compensation	126.7	72%	1,431
Variable compensation	49.5	28%	1,417
<b>Total compensation</b>	<b>176.2</b>	<b>100%</b>	<b>1,431</b>
<b>Foreign Branches (local employees without assignment to the business segments)</b>			
Fixed compensation	1.6	84%	18
Variable compensation	0.3	16%	16
<b>Total compensation</b>	<b>1.9</b>	<b>100%</b>	<b>18</b>

### Board of Managing Directors

	Amount (in € m)	Percent	Number
Fixed compensation	6.1	81%	7
Variable compensation	1.4	19%	7
<b>Total compensation</b>	<b>7.5</b>	<b>100%</b>	<b>7</b>
<b>Further details about the variable compensation</b>			
Payments upon commencing a working relationship	-	-	-
Retained share	1.1		7
Paid out share	0.3		7
Statement of any penalties for poor performance	-	-	-
Share dependent on sustained growth of the institution	1.1		7
Significant contractual severance payments	-	-	-

### “Risk Takers” in accordance with Section 5 (1) Sentence 1 Institutional Compensation Bylaw

	Amount (in € m)	Percent	Number
Fixed compensation	2.2	48%	9
Variable compensation	2.3	52%	9
<b>Total compensation</b>	<b>4.6</b>	<b>100%</b>	<b>9</b>
<b>Further details about the variable compensation</b>			
Payments upon commencing a working relationship	-	-	-
Retained share	1.8	-	-
Paid out share	0.5	-	-
Statement of any penalties for poor performance	-	-	-
Share dependent on sustained growth of the institution	1.8	-	-
Significant contractual severance payments	-	-	-

All Risk Takers are assigned to the Corporate and Investment Banking business segment.