Quarterly Information
as of 30 September 2017

Deutsche Pfandbriefbank Group

DEUTSCHE PFANDBRIEFBANK

This notice is a quarterly report of the Deutsche Pfandbriefbank Group ("pbb Group") in accordance with section 51a of the Exchange Rules (Börsenordnung) of the Frankfurt Stock Exchange. Unless stated otherwise, the following comments are based on (unaudited) figures in accordance with International Financial Reporting Standards (IFRS), adopted by the EU. Furthermore, also unless stated otherwise, the comments relate to comparison with the same period of the previous year (1 January to 30 September 2016, also referred to as "9m2016" below) or, in the case of details concerning the (unaudited) statement of financial position, comparison with figures as at the previous year's reporting date (31 December 2016).

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Business Performance
Key Figures

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9. 2017	1.1.–30.9. 2016	1.1.–30.9. 2016[1]
Operating performance according to IFRS				
Profit or loss before tax	in € million	154	246	114
Net income/loss	in € million	126	187	78
Key ratios		**1.1.–30.9. 2017**	**1.1.–30.9. 2016**	**1.1.–30.9. 2016[1]**
Earnings per share	in €	0.94	1.39	0.58
Cost-income ratio	in %	50.2	37.2	54.0
Return on equity before tax	in %	7.4	12.2	5.7
Return on equity after tax	in %	6.0	9.3	3.9
New business volume[2]	in € billion	7.4	6.7	6.7
Balance sheet figures according to IFRS		**30.9.2017**	**31.12.2016**	**31.12.2016[1]**
Total assets	in € billion	57.9	62.6	62.5
Financing volumes Real Estate Finance and Public Investment Finance	in € billion	31.8	31.5	31.5
Equity	in € billion	2.8	2.8	2.7
Key regulatory capital ratios		**30.9.2017[3]**	**31.12.2016[4]**	**31.12.2016[1)4]**
CET1 ratio	in %	17.3	19.5	19.5
CET1 ratio fully phased-in	in %	17.1	19.0	19.0
Own funds ratio	in %	21.9	23.7	23.7
Own funds ratio fully phased-in	in %	21.8	20.7	20.7
Leverage ratio	in %	4.6	4.6	4.6
Leverage ratio fully phased-in	in %	4.5	4.2	4.2
Staff		**30.9.2017**	**31.12.2016**	
Employees (on full-time equivalent basis)		736	756	
Long-term issuer rating/outlook[5)6]		**30.9.2017**	**31.12.2016**	
Standard & Poor's		A–/Negative	BBB/ CreditWatch Positive	
DBRS		BBB/Stable	BBB/Stable	
Moody's Pfandbrief rating[6]		**30.9.2017**	**31.12.2016**	
Public sector Pfandbriefe		Aa1	Aa1	
Mortgage Pfandbriefe		Aa1	Aa1	

1) Without consideration of the one-off effect from Heta Asset Resolution AG (Heta).
2) Including prolongations with maturities of more than one year.
3) In consideration of the current net profit less the maximum permissible dividend according to the ECB methodology (subject to the supervisory approval).
4) After confirmation of the 2016 financial statements and appropriation of profits.
5) The ratings of unsecured liabilities may diverge from the bank ratings.
6) The rating agencies may alter or withdraw their ratings at any time. Ratings of individual securities issued by Deutsche Pfandbriefbank AG (pbb) may deviate from the ratings indicated above, or an individual security may not be rated at all. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations and the relevant terms of use which are to be considered. Ratings should not serve as a substitute for personal analysis. They do not constitute a recommendation to purchase, sell or hold securities issued by pbb.

Development in Earnings

During the period under review (1 January to 30 September 2017 – "9m2017"), Deutsche Pfandbriefbank Group ("pbb Group") generated pre-tax profit of €154 million. Hence, this result was below the level of previous year's period (1 January to 30 September 2016 – "9m2016") of €246 million, which benefited from non-recurring effects of €132 million (€123 million in net income from financial investments, and €9 million in loan loss provisions). These one-off effects resulted from the reversal of value adjustments for Heta Asset Resolution AG (Heta). Excluding non-recurring effects, pre-tax profit increased considerably compared to (adjusted) pre-tax profit reported for 9m2016. The strong performance in net interest income, and net fee and commission income, made a valuable contribution to this development. pbb Group was able to improve these income figures despite the competitive market environment. A detailed breakdown of the results is provided below.

Income and expenses

in € million	**1.1.–30.9. 2017**	**1.1.–30.9. 2016**	Change
Operating income	309	395	–86
Net interest and commission income	321	297	24
Net interest income	315	292	23
Net fee and commission income	6	5	1
Net trading income	–4	–10	6
Net income from financial investments	–	128	–128
Net income from hedging relationships	–	1	–1
Net other operating income/expenses	–8	–21	13
Loan loss provisions	–2	3	–5
General and administrative expenses	–155	–147	–8
Net miscellaneous income/expenses	2	–5	7
Profit or loss before tax	**154**	**246**	**–92**
Income taxes	–28	–59	31
Net income/loss	**126**	**187**	**–61**
attributable to:			
Equity holders	126	187	–61

Operating Income
Maturities of higher-yielding liabilities led to lower interest expenses, thus contributing to the good development of net interest income (€315 million; 9m2016: €292 million). At €31.8 billion, the average aggregate volume of interest-bearing loans in Real Estate Finance and Public Investment Finance was marginally higher than the same period of the previous year (9m2016: €31.3 billion), whereas the volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy. During the period under review, the average margin of the overall portfolio was slightly above the same period of the previous year, thus contributing to current net interest income. Positive non-recurring effects from prepayment penalties and from the redemption of liabilities amounted to €22 million, and were below the previous year's level (9m2016: €29 million).

Net fee and commission income from non-accruable fees amounted to €6 million (9m2016: €5 million).

Net trading income amounted to €–4 million (9m2016: €–10 million). The pull-to-par effect translated into expenses of €7 million (9m2016: €9 million), whilst interest rate and exchange rate fluctuations led to negative measurement effects of derivatives in the amount of €2 million (9m2016: income of €8 million). This was partly offset by income from the credit risk measurement of pbb as well as its derivatives counterparties in the amount of €5 million (9m2016: expenses of €9 million).

pbb Group disclosed balanced net income from financial investments (9m2016: €128 million). Expenses of €1 million were incurred from net additions to portfolio-based allowances following the changed risk assessment for some Southern European regions. This item was offset by net income from securities disposals in the same amount. During the same period of the previous year, pbb Group recognised income of €123 million from non-recurring effects associated with Heta.

Net income from hedging relationships was balanced (9m2016: €1 million), given that the valuation results of the underlying and hedging transactions offset each other in the micro fair value hedge and portfolio hedge accounting. The net figure disclosed for the same period of the previous year was due exclusively to ineffective portions from micro fair value hedge relationships within the range permitted under IAS 39 (80% to 125%).

Net other operating income/expenses (€–8 million; 9m2016: €–21 million) was burdened, inter alia, by the bank levy for the full year of 2017. Taking into account pledged collateral amounting to 15%, pbb Group recognised expenses of €19 million (9m2016: €21 million). Various other factors translated into additional positive effects in the amount of €11 million: the sale of assets held in pbb's non-strategic Value Portfolio, and VAT reimbursements, more than offset the expenses incurred from net additions to provisions and the impairment losses recognised in connection with a salvage acquisition in Southern Europe.

Loan Loss Provisions
Loan loss provisions amounted to €–2 million (9m2016: €3 million). Whilst specific allowances for a small number of Real Estate Finance exposures were raised by €4 million in total, portfolio-based allowances of €1 million net were reversed. pbb Group recognised recovery payments on previously written-off loans and advances in the amount of €1 million. In the same period of the previous year, there were €1 million in net reversals to specific allowances, €2 million in net additions to portfolio-based allowances, €3 million in recoveries from written-off loans and advances recognised through profit or loss, as well as €1 million in income from the reversal of provisions for contingent liabilities and other commitments.

General and Administrative Expenses

General and administrative expenses totalled €53 million in the third quarter of 2017, unchanged versus the same period of 2016, but the 9m2017 figure (€155 million) was higher than 9m2016 (€147 million). During the same period of the previous year, personnel expenses benefited from the utilisation of provisions recognised in previous periods. Personnel expenses have reached a normalised level in the current financial year, whilst the average staffing level declined. Non-personnel expenses for the period under review were in line with the previous year's level; it included expenses for a Bank-wide project to further optimise the finance and risk IT target architecture. Specifically, this project comprises, inter alia, the implementation of the requirements resulting from IFRS 9 and regulatory developments, as well as the adjustment of the IT systems and processes used to prepare financial statements.

Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses in the amount of €2 million (9m 2016: €–5 million) was predominantly due to the reversal of restructuring provisions.

Income Taxes

Expenses for current taxes of €33 million (9m2016: €28 million) and income from deferred taxes of €5 million (9m2016: expenses of €31 million) resulted in total tax expenses of €28 million (9m2016: €59 million). Deferred tax expenses in the previous year resulted from reversals of temporary differences, largely due to the non-recurring effects associated with Heta, as well as close-outs and novations of derivatives.

Development in Assets and Financial Position

Assets

in € million	30.9.2017	31.12.2016	Change
Cash reserve	349	1,136	–787
Trading assets	887	1,089	–202
Loans and advances to other banks	2,440	2,841	–401
Loans and advances to customers	40,070	41,146	–1,076
Allowances for losses on loans and advances	–121	–130	9
Valuation adjustment from portfolio hedge accounting	–1	2	–3
Financial investments	11,390	12,845	–1,455
Property and equipment	7	8	–1
Intangible assets	26	24	2
Other assets	2,761	3,550	–789
Income tax assets	110	118	–8
Total assets	**57,918**	**62,629**	**–4,711**

Equity and liabilities

in € million	30.9.2017	31.12.2016	Change
Liabilities to other banks	3,229	3,179	50
Liabilities to customers	8,556	9,949	–1,393
Securitised liabilities	38,041	40,381	–2,340
Valuation adjustment from portfolio hedge accounting	1	1	–
Trading liabilities	1,038	1,355	–317
Provisions	226	242	–16
Other liabilities	2,986	3,778	–792
Income tax liabilities	65	59	6
Subordinated capital	994	886	108
Liabilities	**55,136**	**59,830**	**–4,694**
Equity attributable to equity holders	**2,782**	**2,799**	**–17**
Subscribed capital	380	380	–
Additional paid-in capital	1,637	1,637	–
Retained earnings	712	656	56
Gains/losses on pension commitments	–74	–82	8
Foreign currency reserve	3	3	–
Revaluation reserve	–2	8	–10
AfS reserve	–29	–36	7
Cash flow hedge reserve	27	44	–17
Consolidated profit	126	197	–71
Equity	**2,782**	**2,799**	**–17**
Total equity and liabilities	**57,918**	**62,629**	**–4,711**

DEVELOPMENT IN ASSETS

Total assets as at 30 September 2017 decreased compared to 31 December 2016, mainly due to maturing securities and public-sector loans, translating into declining financial investments, or loans and advances to customers, respectively. The decline in the cash reserve was in line with maturities of securitised liabilities. Furthermore, derivative market values recognised under other assets and trading assets declined, given market-induced effects from steepening yield curves.

As at 30 September 2017, the aggregate nominal volumes of strategic real estate financings (€24.6 billion; 31 December 2016: €24.1 billion) and of public investment financings (€7.2 billion; 31 December 2016: €7.4 billion) were slightly above the previous year-end. The non-strategic Value Portfolio declined from €15.8 billion on 31 December 2016 to €14.2 billion, in line with the strategy.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities

Liabilities declined due to, among other things, maturing promissory note loans recognised under liabilities to customers. The decrease in securitised liabilities resulted from maturities (which exceeded new issues) and from fair value adjustments of items covered by micro fair value hedge relationships. Derivatives market values recognised under other liabilities and trading liabilities declined, given market-induced effects from steepening yield curves.

Regarding subordinated capital, the termination of hybrid capital instruments of €0.4 billion was more than compensated by initial issues of €0.5 billion.

Equity

At the beginning of June 2017, pbb distributed dividends of €141 million (or €1.05 per share). The remaining consolidated profit for 2016 of €56 million was appropriated to retained earnings.

Changes recognised under the item gains/losses on pension commitments translated into an increase in equity of €8 million. The reason for this increase was the discount rate used to measure defined benefit pension obligations: it rose from 1.75% as at 31 December 2016 to 2.00% on 30 June 2017, reflecting market interest rates.

pbb Group has ceased active cash flow hedge accounting, meaning that changes in the cash flow hedge reserve only reflect utilisations. The remaining cash flow hedge reserve will be reversed in line with the hedged cash flows from underlying transactions.

Key Regulatory Capital Ratios

As at 30 September 2017 CET1 ratio amounted to17.3% (31 December 2016: 19.5%) and own funds ratio to 21.9% (31 December 2016: 23.7%). Fully phased-in, therefore after expiry of all Basel III transitional regulations, CET1 ratio amounted to 17.1% (31 December 2016: 19.0%) and own funds ratio 21.8% (31 December 2016: 20.7%).

The decline in capital ratios reflected the increase in risk-weighted assets – from €13.1 billion as at 31 December 2016 to €14.7 billion as at 30 September 2017 – which was largely due to the harmonisation of risk models by the European Central Bank.

Funding

New long-term funding was raised in the amount of €5.8 billion (9m2016: €4.8 billion) during the period from 1 January to 30 September 2017. Repurchases and terminations amounted to €0.6 billion (9m2016: €1.0 billion). At €3.2 billion (9m2016: €2.6 billion), Pfandbriefe accounted for just over half of the total issuing volume. Pfandbrief issues with a total volume of €2.2 billion were placed in benchmark format. Unsecured issues contributed €2.1 billion (9m2016: €2.1 billion), while subordinated issues contributed €0.5 billion (9m2016: €0.1 billion) to the overall refinancing volume. More than two-thirds of unsecured funding volumes were raised via private placements – in particular, through promissory note loans. Most issues were placed as fixed-rate bond.

Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. In general, funding activities have closely matched new lending exposures in terms of currency, product, tenor, and volume. In addition to capital market funding, pbb Group has been extending its unsecured funding base through overnight and term deposits from retail investors. As at 30 September 2017, the volume of deposits taken via "pbb direct" amounted to €3.4 billion (31 December 2016: €3.5 billion).

On 23 March 2017, the European Central Bank (ECB) provided a total of €233.5 billion for a maximum term of four years to banks within the euro area, within the scope of Targeted Longer-Term Refinancing Operations (TLTRO). Under this TLTRO, pbb Group was allocated a €1.9 billion, four-year tranche, at an interest rate of 0.0% (the interest rate for the ECB's main refinancing facility at the time of drawing the tranche). The interest rate applicable for this tranche may be reduced further, under certain conditions, and may thus turn negative. pbb Group assumes that these conditions will be met, hence interest-rate benefits are accrued over the term. The allocated TLTRO tranche was reported under liabilities to banks as at 30 September 2017.

Liquidity

pbb calculates the liquidity ratio at the single-entity level, in accordance with the German Liquidity Regulation (Liquiditätsverordnung – "LiqV"). It amounted to 3.6 at the reporting date (31 December 2016: 1.6) – significantly above the legally required minimum of 1.0.

Since 1 January 2017, a minimum Liquidity Coverage Ratio (LCR) of 80% has been mandatory in regulatory liquidity reporting. This minimum value will rise to 100% by 1 January 2018. In the reporting period the figures determined for pbb Group were significantly higher than 100%.

Off-balance-sheet Obligations

Irrevocable loan commitments of €3,814 million (31 December 2016: €3,802 million) constitute the material part of off-balance-sheet obligations. Contingent liabilities under guarantees and warranties amounted to €95 million (31 December 2016: €171 million) and commitments from bank levies due to collateral pledged to €15 million (31 December 2016: €11 million).

Segment Reporting

Income/expenses

in € million		REF	PIF	VP	C&A	pbb Group
Operating income	1.1.–30.9.2017	245	22	37	5	309
	1.1.–30.9.2016	225	23	144	3	395
Net interest income	1.1.–30.9.2017	255	26	29	5	315
	1.1.–30.9.2016	234	25	29	4	292
Net fee and commission income	1.1.–30.9.2017	7	–	–1	–	6
	1.1.–30.9.2016	5	–	–	–	5
Net trading income	1.1.–30.9.2017	–	–1	–3	–	–4
	1.1.–30.9.2016	–6	–1	–3	–	–10
Net income from financial investments	1.1.–30.9.2017	–1	–	1	–	–
	1.1.–30.9.2016	3	1	124	–	128
Net income from hedging relationships	1.1.–30.9.2017	–	–	–	–	–
	1.1.–30.9.2016	1	–	–	–	1
Net other operating income/expenses	1.1.–30.9.2017	–16	–3	11	–	–8
	1.1.–30.9.2016	–12	–2	–6	–1	–21
Loan loss provisions	1.1.–30.9.2017	–3	–	1	–	–2
	1.1.–30.9.2016	–6	–	9	–	3
General and administrative expenses	1.1.–30.9.2017	–123	–21	–11	–	–155
	1.1.–30.9.2016	–114	–20	–13	–	–147
Net miscellaneous income/expenses	1.1.–30.9.2017	2	–	–	–	2
	1.1.–30.9.2016	–4	–1	–	–	–5
Profit or loss before tax	1.1.–30.9.2017	**121**	**1**	**27**	**5**	**154**
	1.1.–30.9.2016	**101**	**2**	**140**	**3**	**246**

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes[1]	30.9.2017	24.6	7.2	14.2	–	46.0
	31.12.2016	24.1	7.4	15.8	–	47.3
Risk-weighted assets[2]	30.9.2017	8.6	1.4	3.6	1.1	14.7
	31.12.2016	6.4	1.4	4.1	1.2	13.1
Equity[3]	30.9.2017	0.7	0.3	1.4	0.4	2.8
	31.12.2016	0.6	0.3	1.5	0.4	2.8

[1] Notional amounts of the drawn parts of granted loans and parts of the securities portfolio.
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.
[3] Excluding revaluation reserve.

Report on Post-balance Sheet Date Events

There were no significant events after 30 September 2017.

Report on Changes in Expected Developments

Given that stable development is anticipated during the fourth quarter, pbb Group raised its guidance for the full year 2017, to pre-tax profit of between €195 million and €200 million.

Maturities by Remaining Terms

Maturities[1)]

in € million	30.9.2017	31.12.2016
Assets		
Loans and advances to other banks	2,440	2,841
Repayable on demand	1,732	2,059
Up to 3 months	4	18
More than 3 months to 1 year	133	45
More than 1 year to 5 years	28	164
More than 5 years	543	555
Loans and advances to customers	40,070	41,146
Repayable on demand	1,336	1,023
Up to 3 months	1,452	1,167
More than 3 months to 1 year	2,353	2,860
More than 1 year to 5 years	17,538	18,067
More than 5 years	17,391	18,029
Financial investments	11,390	12,845
Unspecified terms	3	3
Up to 3 months	785	765
More than 3 months to 1 year	429	1,690
More than 1 year to 5 years	2,901	2,542
More than 5 years	7,272	7,845
Liabilities		
Liabilities to other banks	3,229	3,179
Repayable on demand	908	924
Up to 3 months	14	1,583
More than 3 months to 1 year	22	56
More than 1 year to 5 years	1,950	73
More than 5 years	335	543
Liabilities to customers	8,556	9,949
Repayable on demand	1,330	1,560
Up to 3 months	598	1,381
More than 3 months to 1 year	1,527	1,654
More than 1 year to 5 years	3,818	4,083
More than 5 years	1,283	1,271
Securitised liabilities	38,041	40,381
Up to 3 months	766	3,259
More than 3 months to 1 year	3,274	3,129
More than 1 year to 5 years	16,465	14,829
More than 5 years	17,536	19,164
Subordinated capital	994	886
Up to 3 months	17	54
More than 3 months to 1 year	193	361
More than 1 year to 5 years	71	246
More than 5 years	713	225

[1)] Excluding: trading assets, allowances for losses on loans and advances, valuation adjustment from portfolio hedge accounting (assets side), property and equipment, intangible assets, other assets, income tax assets, valuation adjustment from portfolio hedge accounting (liabilities side), trading liabilities, provisions, other liabilities, income tax liabilities and equity.

Additional Information
Future-oriented Statements

This report contains future-oriented statements inter alia in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management board of pbb. Future-oriented statements therefore only apply on the day on which they are made. pbb Group does not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include the condition of the financial markets in Germany, Europe and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of our principles, procedures and methods for risk management as well as other risks associated with our business activity.

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CONCEPT, DESIGN AND REALISATION

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