Quarterly Information
as of 30 September 2016

Deutsche Pfandbriefbank Group

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

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 2015, also referred to as "9m2015" below) or, in the case of details concerning the statement of financial position, comparison with figures as at the previous year's reporting date (31 December 2015).

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Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9. 2016	1.1.–30.9. 2015
Operating performance according to IFRS			
Profit or loss before tax	in € million	246	165
Net income/loss	in € million	187	141
Key ratios		**1.1.–30.9. 2016**	**1.1.–30.9. 2015**
Earnings per share (basic and diluted)	in €	1.39	1.05
Cost-income ratio	in %	37.2	50.0
Return on equity before tax	in %	12.2	6.8[1]
Return on equity after tax	in %	9.3	5.8[1]
New business volume[2]	in € billion	6.7	8.9
Balance sheet figures according to IFRS		**30.9.2016**	**31.12.2015**
Total assets	in € billion	65.0	66.8
Financial position equity (excluding revaluation reserve)	in € billion	2.8	2.7
Financial position equity	in € billion	2.8	2.7
Key regulatory capital ratios		**30.9.2016**	**31.12.2015**
CET1 ratio	in %	19.6	18.9
CET1 ratio fully phased-in	in %	19.1	18.2
Own funds ratio	in %	23.9	23.4
Own funds ratio fully phased-in	in %	20.8	19.9
Leverage ratio[3]	in %	4.5	4.4
Leverage ratio fully phased-in[3]	in %	4.1	3.9
Staff		**30.9.2016**	**31.12.2015**
Full-time equivalents		759	785
Long-term rating[4]		**30.9.2016**	**31.12.2015**
Standard & Poor's		BBB	BBB
DBRS		BBB	BBB
Moody's Pfandbrief rating[4]		**30.9.2016**	**31.12.2015**
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

[1] Excluding the silent partnership contribution, return on equity before tax would amount to 8.8% and return on equity after tax would be 7.6%.
[2] Including prolongations with maturities of more than one year.
[3] Leverage ratio is defined as the ratio of Tier 1 and the relevant exposure in accordance with CRR.
[4] The rating agencies may alter or withdraw their ratings at any time. 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 Deutsche Pfandbriefbank AG (pbb).

Development in Earnings

During the period under review (1 January to 30 September 2016, also referred to as "9m2016" below), Deutsche Pfandbriefbank Group ("pbb Group") realised profit before tax of €246 million. This result significantly exceeded the level of previous year's period (1 January to 30 September 2015, also referred to as "9m2015" below) of €165 million, however the result has benefitted from a non-recurring effect of €132 million.

On 6 September 2016, the Carinthian Compensation Payment Fund (Kärntner Ausgleichszahlungs-Fonds) made a buy-back offer to creditors of Heta Asset Resolution AG ("Heta") for their holdings of Heta debt securities; the offer stipulates the following conditions regarding senior Heta debt securities, such as those held by Deutsche Pfandbriefbank AG ("pbb"): cash payment of 75% of the nominal value and conversion into zero-coupon bonds with an economic value of about 90% and a term of just over 15 years. The repurchase offer included specific minimum rates of acceptance, and pbb accepted the offer.

As at the record date of 30 September 2016, the required minimum acceptance rates were not yet reached, but fulfilment was considered very likely. Hence, pbb Group already recognised the required write-ups on the Heta exposure and securities, resulting in positive non-recurring effects of €132 million, allocated to net income from financial investments (€123 million) and loan loss provisions (€9 million).

On 10 October 2016, the Carinthian Compensation Payment Fund announced the fulfilment of the required minimum acceptance rates and the conclusion of the repurchase offer. pbb sold the zero coupon bond issued by the Fund during October 2016, without realising any material effects on income.

Income and expenses

in € million	1.1.–30.9. 2016	1.1.–30.9. 2015	Change
Operating income	395	300	95
Net interest and commission income	297	336	–39
Net interest income	292	324	–32
Net fee and commission income	5	12	–7
Net trading income	–10	7	–17
Net income from financial investments	128	–32	160
Net income from hedging relationships	1	9	–8
Net other operating income/expenses	–21	–20	–1
Loan loss provisions	3	8	–5
General and administrative expenses	–147	–150	3
Net miscellaneous income/expenses	–5	7	–12
Profit or loss before tax	**246**	**165**	81
Income taxes	–59	–24	–35
Net income/loss	**187**	**141**	46
attributable to:			
Equity holders	187	141	46

Pre-tax profit rose by €81 million, from €165 million to €246 million. The increase was due to the positive non-recurring effect of €132 million from the write-up on Heta debt instruments. Profit before tax would have declined compared to the previous year without this non-recurring item, driven inter alia by negative valuation effects disclosed in net trading income and net income from hedging relationships, and by smaller additions to provisions. Net interest income decreased as well.

Operating Income Net interest income declined to €292 million (9m2015: €324 million), attributable mainly to the reduction of the non-strategic Value Portfolio (VP) due to maturities and disposals, and lower non-recurring effects in this segment. In contrast, net interest income in the major Real Estate Finance (REF) segment has risen, inter alia as a result of higher allocated non-recurring effects from prepayment penalties. The current net interest income (less allocations) generated from the strategic portfolios Real Estate Finance and Public Investments Finance (PIF) declined only marginally. On this occasion, pbb Group benefitted from increased average volumes. The higher average volume of strategic financings almost fully offset the impact of the lower average margin on existing exposures. Average margins decreased, because the majority of repayments were higher-margin business. Yet the average margin of the overall portfolio remained stable, reflecting the decreasing share of the non-strategic, low-margin VP. Moreover, income declined as a result of generally lower interest rate levels, growing competitive pressure and the proliferation of negative interest rates throughout the euro area. Furthermore, non-recurring effects had a lower impact on net interest income. For instance, net interest income during the same period in the previous year benefited from €25 million in income realised upon the disposal of promissory note loans.

Net fee and commission income from non-accruable fees declined to €5 million (9m2015: €12 million). The figure for the same period in the previous year included €5 million in commission income generated in connection with a financing arrangement, which was repaid in full.

Negative net trading income (€–10 million; 9m2015: €7 million) was burdened with €9 million (9m2015: €14 million) by the so-called pull-to-par effect, according to which the present value of derivatives approaches zero towards maturity. Additionally, trading income was affected by the measurement of pbb's credit risk and its derivative counterparties (so-called bilateral Credit Value Adjustment), which resulted in expenses of €8 million (9m2015: income of €4 million). Expenses incurred in connection with the bilateral Credit Value Adjustment resulted from increased credit spreads amongst pbb's derivatives counterparties. Furthermore, adjustments of estimates used to determine the bilateral Credit Value Adjustments for certain derivative counterparties incurred additional expenses of €1 million. On a positive note, interest rate and exchange rate fluctuations led to positive measurement effects of derivatives in the amount of €8 million (9m2015: €17 million).

In particular, the non-recurring effect of €123 million from Heta contributed to the positive net income from financial investments of €128 million (9m2015: €–32 million). pbb also sold securities held as liquidity reserve. The previous year's figure was materially influenced by additional write-downs of €73 million on Heta securities, and by net income of €41 million from the sale of securities.

As in the comparable period of the previous year, net income from hedging relationships of €1 million (9m2015: €9 million) was entirely attributable to ineffective portions from micro fair value hedge relationships within the range permitted under IAS 39 (80–125%).

Net other operating income/expenses (€–21 million; 9m2015: €–20 million) was predominantly burdened by the bank levy, with a total amount paid of €24 million. Given that pbb is able to pledge collateral amounting to 15% of the bank levy, it was only expenses of €21 million that needed to be recognised in income. In the previous year's period, provisions of €25 million were recognised through profit or loss, based on the estimates at the time and without taking collateral into consideration. Additional expenses of €6 million were recognised in the period under review to impairments of salvage acquisitions. Rental income of €3 million (9m2015: €8 million) was generated from foreclosed properties, and currency translation effects contributed €2 million (9m2015: €8 million). Pre-tax income from the disposal of a property in Japan resulted in positive effects of €39 million in the same period of the previous year.

Loan Loss Provisions Net reversals of loan loss provisions were recognised in the period under review (€3 million; 9m2015: net reversals of €8 million). Specific allowances of €1 million (net amount) were reversed (9m2015: net additions of €7 million). Heta-specific allowances of €9 million were reversed, while various individual items contributed to total additions of €8 million. Net additions to portfolio-based allowances amounted to €2 million (9m2015: net reversals of €13 million). Additional income of €1 million was recognised from the reversal of provisions for contingent liabilities and other commitments (9m2015: €1 million). Moreover, recoveries from written-off loans and advances were recognised through profit or loss (€3 million; 9m2015: €1 million).

General and Administrative Expenses pbb Group was able to lower general and administrative expenses to €147 million (9m2015: €150 million). Non-personnel expenses of €70 million increased from the previous year period (9m2015: €66 million). This item includes expenses for a bank-wide project for the implementation of new regulatory requirements, and to enhance efficiency inter alia of the process to prepare the financial statements. In contrast, personnel expenses were reduced from €84 million in the same period of the previous year to €77 million. Factors contributing to this decline were, amongst others, the lower headcount (804 compared to 834 in 9m2015), as well as disbursements during the period under review for which provisions were recognised in previous periods. pbb assumes that these provisions will be used entirely by year-end 2016.

Net Miscellaneous Income/Expenses Net miscellaneous income/expenses (€–5 million; 9m2015: €7 million) was related to net additions to restructuring provisions, resulting from the adjustment of parameters included in the calculation. Income recognised in the previous year's period resulted from other tax income and net reversals of restructuring provisions.

Income Taxes Expenses for current taxes of €28 million (9m2015: €20 million) and expenses for deferred taxes of €31 million (9m2015: €4 million) resulted in total tax expenses of €59 million (9m2015: €24 million).

Development in Assets and Financial Position

Assets

in € million	30.9.2016	31.12.2015	Change
Cash reserve	896	1,265	–369
Trading assets	1,315	1,600	–285
Loans and advances to other banks	3,523	2,742	781
Loans and advances to customers	41,434	41,204	230
Allowances for losses on loans and advances	–121	–127	6
Valuation adjustment from portfolio hedge accounting	7	1	6
Financial investments	13,481	14,927	–1,446
Property and equipment	9	10	–1
Intangible assets	22	21	1
Other assets	4,286	5,013	–727
Income tax assets	125	105	20
Total assets	**64,977**	**66,761**	–1,784

Equity and liabilities

in € million	30.9.2016	31.12.2015	Change
Liabilities to other banks	2,101	2,514	–413
Liabilities to customers	10,466	10,824	–358
Securitised liabilities	42,460	42,648	–188
Valuation adjustment from portfolio hedge accounting	2	1	1
Trading liabilities	1,366	1,643	–277
Provisions	252	229	23
Other liabilities	4,529	4,918	–389
Income tax liabilities	66	113	–47
Subordinated capital	936	1,125	–189
Liabilities	**62,178**	**64,015**	–1,837
Equity attributable to equity holders	**2,799**	**2,746**	53
Subscribed capital	380	380	–
Additional paid-in capital	1,637	1,637	–
Retained earnings	655	483	172
Gains/losses on pension commitments	–103	–71	–32
Foreign currency reserve	4	4	–
Revaluation reserve	39	83	–44
AfS reserve	–11	–4	–7
Cash flow hedge reserve	50	87	–37
Consolidated profit 1.1.–30.9./31.12.	187	230	–43
Equity	**2,799**	**2,746**	53
Total equity and liabilities	**64,977**	**66,761**	–1,784

DEVELOPMENT IN ASSETS

Total assets as at 30 September 2016 slightly declined compared to 31 December 2015, mainly due to the first-time netting of derivatives entered into with Eurex Clearing.

New business (including extensions beyond one year) originated during the period under review amounted to €6.7 billion (9m2015: €8.9 billion). As at 30 September 2016, the notional volumes of strategic real estate financings (€24.0 billion; 31 December 2015: €24.0 billion) and of public investment financings (€7.2 billion; 31 December 2015: €7.3 billion) were about in line with the figures as at 31 December 2015. The non-strategic Value Portfolio declined from €18.7 billion on 31 December 2015 to €16.6 billion, as anticipated.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities As with assets, the decline in total liabilities was mainly attributable to the first-time netting of derivatives entered into with Eurex Clearing.

Subordinated capital decreased due to maturities of subordinated liabilities. Provisions rose due to an increase in provisions for pensions, triggered by the application of a lower discount rate. The increase was partly offset by the utilisation of other provisions.

Financial Position Equity Financial position equity amounted to €2.8 billion as at 30 September 2016 (31 December 2015: €2.7 billion).

The change in gains/losses on pension commitments reduced equity by €32 million, since the discount rate applied to measure defined benefit pension obligations declined from 2.25% as at 31 December 2015 to 1.25% as at 30 September 2016, reflecting movements in market interest rates. The decline in the AfS reserve largely reflected changes in the spreads for sovereign bonds issued by Southern European countries. 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. In May 2016, pbb distributed dividends of €58 million respectively €0.43 per share to the shareholders. The remaining consolidated profit for 2015 of €172 million was appropriated to retained earnings, and thus increased equity. There were no other material changes to Group equity.

Funding During the period from 1 January to 30 September 2016, new long-term funding was raised: secured and unsecured issues amounted to €4.8 billion (9m2015: €2.9 billion). In contrast, repurchases and terminations amounted to €1.0 billion (9m2015: €1.2 billion). Unsecured issues amounted to €2.1 billion (9m2015: €1.7 billion), out of which a total of €1.1 billion were benchmark transactions (9m2015: €0.7 billion). The remaining funding volume was raised via private placements, particularly promissory note loans. New secured issues amounted to €2.6 billion (9m2015: €1.2 billion), with benchmark transactions contributing a total of €2.3 billion (9m2015: €0.5 billion). Two Public Sector Pfandbrief issues placed in benchmark format were particularly worth noting. pbb issued the benchmark with the longest maturity on the market (19 years) denominated in euros. Furthermore, pbb issued a debut USD benchmark bond. Most issues were placed as fixed-rate basis. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. 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 2016, the volume of deposits taken via "pbb direct" amounted to €3.5 billion (31 December 2015: €2.6 billion).

Liquidity pbb calculates its liquidity indicator on a single-entity level, in accordance with the German Liquidity Ordinance. At the reporting date, it stood at 2.7 (31 December 2015: 2.9) and thus clearly exceeded the statutory minimum threshold of 1.0. Since 1 October 2015, a minimum Liquidity Coverage Ratio (LCR) of (currently) 70% must be complied with in the regulatory liquidity reports. This minimum value will rise to 100% by 1 January 2018. The LCR determined (internally) for pbb Group as at 30 September 2016 was clearly above 100%.

Off-balance-sheet Obligations Irrevocable loan commitments of €3.0 billion (31 December 2015: €2.9 billion) constitute the material part of off-balance sheet obligations. Contingent liabilities under guarantees and indemnity agreements amounted to €0.2 billion (31 December 2015: €0.2 billion).

Segment Reporting

Income/expenses

in € million		REF	PIF	VP	C&A	**pbb Group**
Operating income	1.1.–30.9.2016	225	23	144	3	395
	1.1.–30.9.2015	275	27	–6	4	300
Net interest income	1.1.–30.9.2016	234	25	29	4	292
	1.1.–30.9.2015	226	28	66	4	324
Net fee and commission income	1.1.–30.9.2016	5	–	–	–	5
	1.1.–30.9.2015	12	–	–	–	12
Net trading income	1.1.–30.9.2016	–6	–1	–3	–	–10
	1.1.–30.9.2015	7	–	–	–	7
Net income from financial investments	1.1.–30.9.2016	3	1	124	–	128
	1.1.–30.9.2015	18	6	–56	–	–32
Net income from hedging relationships	1.1.–30.9.2016	1	–	–	–	1
	1.1.–30.9.2015	4	1	4	–	9
Net other operating income/expenses	1.1.–30.9.2016	–12	–2	–6	–1	–21
	1.1.–30.9.2015	8	–8	–20	–	–20
Loan loss provisions	1.1.–30.9.2016	–6	–	9	–	3
	1.1.–30.9.2015	14	–	–6	–	8
General and administrative expenses	1.1.–30.9.2016	–114	–20	–13	–	–147
	1.1.–30.9.2015	–116	–20	–14	–	–150
Net miscellaneous income/expenses	1.1.–30.9.2016	–4	–1	–	–	–5
	1.1.–30.9.2015	6	1	–	–	7
Profit or loss before tax	1.1.–30.9.2016	**101**	**2**	**140**	**3**	**246**
	1.1.–30.9.2015	**179**	**8**	**–26**	**4**	**165**

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	**pbb Group**
Financing volumes[1]	30.9.2016	24.0	7.2	16.6	–	47.8
	31.12.2015	24.0	7.3	18.7	–	50.0
Risk-weighted assets[2]	30.9.2016	5.9	1.5	4.2	1.2	12.8
	31.12.2015	6.5	1.4	4.4	1.1	13.4
Equity[3]	30.9.2016	0.6	0.3	1.5	0.4	2.8
	31.12.2015	0.6	0.2	1.5	0.4	2.7

[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 2016.

Breakdown of Maturities by Remaining Term

Maturities[1)]

in € million	30.9.2016	31.12.2015
Assets		
Loans and advances to other banks	3,523	2,742
Repayable on demand	2,285	1,758
Up to 3 months	458	3
3 months to 1 year	71	190
1 year to 5 years	160	234
5 years and over	549	557
Loans and advances to customers	41,434	41,204
Repayable on demand	1,190	1,085
Up to 3 months	1,317	1,447
3 months to 1 year	2,274	2,696
1 year to 5 years	18,104	18,030
5 years and over	18,549	17,946
Financial investments	13,481	14,927
Unspecified terms	3	3
up to 3 months	388	929
3 months to 1 year	1,887	1,458
1 year to 5 years	3,017	3,960
5 years and over	8,186	8,577
Liabilities		
Liabilities to other banks	2,101	2,514
Repayable on demand	1,290	1,255
Up to 3 months	86	157
3 months to 1 year	97	430
1 year to 5 years	106	150
5 years and over	522	522
Liabilities to customers	10,466	10,824
Repayable on demand	1,543	1,271
Up to 3 months	1,178	1,291
3 months to 1 year	2,314	2,139
1 year to 5 years	4,114	4,829
5 years and over	1,317	1,294
Securitised liabilities	42,460	42,648
Up to 3 months	2,033	2,050
3 months to 1 year	5,686	4,411
1 year to 5 years	14,302	18,335
5 years and over	20,439	17,852
Subordinated capital	936	1,125
Up to 3 months	77	223
3 months to 1 year	391	15
1 year to 5 years	246	710
5 years and over	222	177

[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 of pbb. Future-oriented statements therefore only apply on the day on which they are made. We do 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.

INTERNET SERVICE

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