Quarterly Information
as of 31 March 2017

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 31 March 2016, also referred to as "3m2016" 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).

CONTENTS

Business Performance
Key Figures

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–31.3. 2017	1.1.–31.3. 2016
Operating performance according to IFRS			
Profit or loss before tax	in € million	47	45
Net income/loss	in € million	38	34
Key ratios		**1.1.–31.3. 2017**	**1.1.–31.3. 2016**
Earnings per share	in €	0.28	0.25
Cost-income ratio	in %	51.0	50.0
Return on equity before tax	in %	6.7	6.7
Return on equity after tax	in %	5.4	5.1
New business volume[1]	in € billion	2.4	2.9
Balance sheet figures according to IFRS		**31.3.2017**	**31.12.2016**
Total assets	in € billion	61.2	62.6
Financing volumes Real Estate Finance and Public Investment Finance	in € billion	31.8	31.5
Equity	in € billion	2.8	2.8
Key regulatory capital ratios[2]		**31.3.2017**	**31.12.2016**
CET1 ratio	in %	19.5	19.5
CET1 ratio fully phased-in	in %	19.2	19.0
Own funds ratio	in %	24.5	23.7
Own funds ratio fully phased-in	in %	21.9	20.7
Leverage ratio[3]	in %	4.6	4.6
Leverage ratio fully phased-in[3]	in %	4.3	4.2
Staff		**31.3.2017**	**31.12.2016**
Employees (on full-time equivalent basis)		739	756
Long-term bank ratings[4][5]		**31.3.2017**	**31.12.2016**
Standard & Poor's		A–/Negative	BBB/Credit Watch Positive
DBRS		BBB/Stable	BBB/Stable
Moody's Pfandbrief rating[5]		**31.3.2017**	**31.12.2016**
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

[1] Including prolongations with maturities of more than one year.
[2] After confirmation of the 2016 financial statements, less the proposed dividend (subject to approval by the Annual General Meeting).
[3] Leverage ratio is defined as the ratio of Tier 1 and the relevant exposure in accordance with CRR.
[4] The ratings of unsecured liabilities may diverge from the bank ratings.
[5] 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 31 March 2017 – "3m2017"), the Deutsche Pfandbriefbank Group ("pbb Group") generated profit before taxes of €47 million, slightly exceeding the €45 million figure for the same period of the previous year (1 January to 31 March 2016 – "3m2016"). Net interest income, the Group's main income component, matched the previous year's good result, in spite of an environment that remained challenging in terms of market interest rates and competition. Moreover, results benefited from income generated upon disposal of assets from the non-strategic Value Portfolio. As usual, first-quarter results included expenses for the bank levy. A detailed breakdown of results is provided below:

Income and expenses

in € million	1.1.–31.3. 2017	1.1.–31.3. 2016	Change
Operating income	98	90	8
Net interest and commission income	106	104	2
Net interest income	103	102	1
Net fee and commission income	3	2	1
Net trading income	–2	–5	3
Net income from financial investments	1	4	–3
Net income from hedging relationships	1	1	–
Net other operating income/expenses	–8	–14	6
Loan loss provisions	–2	–	–2
General and administrative expenses	–50	–45	–5
Net miscellaneous income/expenses	1	–	1
Profit or loss before tax	**47**	**45**	**2**
Income taxes	–9	–11	2
Net income/loss	**38**	**34**	**4**
attributable to:			
Equity holders	38	34	4

Operating Income

Maturities of higher-yielding liabilities led to lower interest expenses, thus contributing to the good development of net interest income (€103 million; 3m2016: €102 million). At €31.7 billion, the average aggregate volume of interest-bearing financing volumes in Real Estate Finance and Public Investment Finance matched the high level of the previous year (3m2016: €31.4 billion), whereas the volume of the non-strategic Value Portfolio continued to decline, in line with the strategy. Non-recurring income contributions from early termination fees were lower during the period under review (€8 million; 3m2016: €11 million).

Net fee and commission income from non-accruable fees amounted to €3 million (3m2016: €2 million).

Negative net trading income of €–2 million (3m2016: €–5 million) was largely attributable to the pull-to-par effect, according to which the present value of derivatives approaches zero towards maturity.

A changed internal risk assessment for a Southern European region contributed to the positive net income from financial investments of €1 million (3m2016: €4 million).

The net income from hedging relationships of €1 million (3m2016: €1 million) was due exclusively to ineffective portions from fair value micro-hedge relationships within the range permitted under IAS 39 (80% to 125%).

Net other operating income/expenses in the amount of €−8 million (3m2016: €−14 million) predominantly included €20 million (3m2016: €21 million) in expected bank levy expenses for the full financial year 2017; the net figure also comprised income of €17 million from the sale of assets from the non-strategic Value Portfolio.

Loan Loss Provisions

New loan loss provisions of €2 million were recognised during the period under review (3m2016: €0 million), thus remaining at a low level. Whilst specific allowances for a small number of Real Estate Finance exposures were raised by €4 million net (3m2016: net reversal of €1 million), portfolio-based allowances of €2 million net were reversed (3m2016: net addition of €2 million). Additional income of €1 million was recognised during the same period of the previous year from the reversal of provisions for contingent liabilities and other obligations.

General and Administrative Expenses

General and administrative expenses rose to €50 million (3m2016: €45 million), reflecting higher personnel expenses as well as non-personnel expenses. The increase in personnel expenses reflected a reduction of expenses in the previous year's period, due to provisions for disbursements recognised in prior periods which were fully charged off in 2016. Non-personnel expenses included expenses for a bank-wide project for the implementation of new regulatory requirements, and to enhance efficiency – which also encompassed the process to prepare the financial statements.

Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses in the amount of €1 million (3m2016: €0 million) was due to the reversal of restructuring provisions.

Income Taxes

Aggregate tax expenses of €9 million (3m2016: €11 million) was entirely due to current taxes (3m2016: €4 million), whilst the figure for the previous year's period also included expenses for deferred taxes of €7 million.

Development in Assets and Financial Position

Assets

in € million	31.3.2017	31.12.2016	Change
Cash reserve	549	1,136	−587
Trading assets	1,026	1,089	−63
Loans and advances to other banks	2,675	2,841	−166
Loans and advances to customers	40,974	41,146	−172
Allowances for losses on loans and advances	−132	−130	−2
Valuation adjustment from portfolio hedge accounting	–	2	−2
Financial investments	12,695	12,845	−150
Property and equipment	8	8	–
Intangible assets	25	24	1
Other assets	3,239	3,550	−311
Income tax assets	112	118	−6
Total assets	**61,171**	**62,629**	**−1,458**

Equity and liabilities

in € million	31.3.2017	31.12.2016	Change
Liabilities to other banks	3,489	3,179	310
Liabilities to customers	9,437	9,949	−512
Securitised liabilities	39,378	40,381	−1,003
Valuation adjustment from portfolio hedge accounting	1	1	–
Trading liabilities	1,161	1,355	−194
Provisions	242	242	–
Other liabilities	3,594	3,778	−184
Income tax liabilities	61	59	2
Subordinated capital	998	886	112
Liabilities	**58,361**	**59,830**	**−1,469**
Equity attributable to equity holders	**2,810**	**2,799**	**11**
Subscribed capital	380	380	–
Additional paid-in capital	1,637	1,637	–
Retained earnings	656	656	–
Gains/losses on pension commitments	−82	−82	–
Foreign currency reserve	4	3	1
Revaluation reserve	−20	8	−28
AfS reserve	−55	−36	−19
Cash flow hedge reserve	35	44	−9
Consolidated profit	235	197	38
Equity	**2,810**	**2,799**	**11**
Total equity and liabilities	**61,171**	**62,629**	**−1,458**

DEVELOPMENT IN ASSETS

Total assets of €61.2 billion at the end of the first quarter of 2017 were slightly lower than at the end of the previous year (31 December 2016: €62.6 billion), particularly due to a lower cash reserve, as well as lower market values of derivatives.

The cash reserve as at 31 March 2017 was €0.6 billion lower than at the previous year-end, predominantly due to maturities of liabilities.

Steeper yield curves were the main contributing factor to an aggregate €0.4 billion decline in derivatives market values within trading assets and other assets.

The nominal volume of strategic real estate financings of €24.1 billion on the reporting date matched the figure as at the end of the previous year, whilst the nominal volume of public investment financings rose to €7.7 billion (31 December 2016: €7.4 billion). The non-strategic Value Portfolio declined from €15.8 billion on 31 December 2016 to €15.5 billion, in line with the strategy.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities

Liabilities decreased, especially due to lower securitised liabilities and liabilities to customers.

Securitised liabilities decreased to €39.4 billion (31 December 2016: €40.4 billion), as maturities exceeded new issues.

The reduction in liabilities to customers was attributable, in particular, to a €0.5 billion decrease in promissory note loans held as a result of maturities.

Equity

Equity of €2.8 billion as at 31 March 2017 was unchanged from 31 December 2016.

The decline in the AfS reserve largely reflected changes in the spreads for Southern European bonds. 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. There were no other material changes to equity.

Funding

During the first quarter of 2017, new long-term funding was raised in the amount of €2.7 billion (3m2016: €2.3 billion). The total amount comprised unsecured issues as well as Pfandbrief issues, both in the form of benchmark issues and private placements. €1.2 billion (3m2016: €1.0 billion) was attributable to unsecured issues, €0.7 billion (3m2016: €0.6 billion) of which was in the form of benchmark issues and €0.5 billion (3m2016: €0.4 billion) in the form of private placements. €1.5 billion (3m2016: €1.3 billion) was attributable to Pfandbrief issues, €1.0 billion (3m2016: €1.2 billion) of which was in the form of benchmark issues, and €0.5 billion (3m2016: €0.1 billion) in the form of private placements. Furthermore, pbb issued €150 million of subordinated bonds. Most issues were placed as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

Overnight and term deposits from retail investors taken via “pbb direct” amounted to €3.4 billion as at 31 March 2017 (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. The allocated TLTRO tranche was reported under liabilities to banks as at 31 March 2017.

Liquidity

pbb calculates the liquidity ratio at the single-entity level, in accordance with the German Liquidity Regulation (Liquiditätsverordnung – “LiqV”). It amounted to 3.1 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 currently 80% (100% from 1 January 2018 onwards) has been mandatory in regulatory liquidity reporting. The LCR for pbb Group as at 31 March 2017 was significantly higher than 100%.

Off-balance-sheet Obligations

Irrevocable loan commitments of €4.1 billion (31 December 2016: €3.8 billion) constitute the material part of off-balance-sheet obligations. Contingent liabilities under guarantees and warranties amounted to €0.2 billion (31 December 2016: €0,2 billion).

Segment Reporting

Income/expenses

in € million		REF	PIF	VP	C&A	pbb Group
Operating income	1.1.–31.3.2017	73	5	19	1	98
	1.1.–31.3.2016	68	9	11	2	90
Net interest income	1.1.–31.3.2017	83	9	10	1	103
	1.1.–31.3.2016	77	9	14	2	102
Net fee and commission income	1.1.–31.3.2017	3	–	–	–	3
	1.1.–31.3.2016	2	–	–	–	2
Net trading income	1.1.–31.3.2017	–	–1	–1	–	–2
	1.1.–31.3.2016	–5	–	–	–	–5
Net income from financial investments	1.1.–31.3.2017	–	1	–	–	1
	1.1.–31.3.2016	3	–	1	–	4
Net income from hedging relationships	1.1.–31.3.2017	–	–	1	–	1
	1.1.–31.3.2016	–	1	–	–	1
Net other operating income/expenses	1.1.–31.3.2017	–13	–4	9	–	–8
	1.1.–31.3.2016	–9	–1	–4	–	–14
Loan loss provisions	1.1.–31.3.2017	–3	–	1	–	–2
	1.1.–31.3.2016	–	–	–	–	–
General and administrative expenses	1.1.–31.3.2017	–40	–6	–4	–	–50
	1.1.–31.3.2016	–36	–6	–3	–	–45
Net miscellaneous income/expenses	1.1.–31.3.2017	1	–	–	–	1
	1.1.–31.3.2016	–	–	–	–	–
Profit or loss before tax	1.1.–31.3.2017	**31**	**–1**	**16**	**1**	**47**
	1.1.–31.3.2016	**32**	**3**	**8**	**2**	**45**

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes[1]	31.3.2017	24.1	7.7	15.5	–	47.3
	31.12.2016	24.1	7.4	15.8	–	47.3
Risk-weighted assets[2]	31.3.2017	6.3	1.4	4.0	1.3	13.0
	31.12.2016	6.4	1.4	4.1	1.2	13.1
Equity[3]	31.3.2017	0.6	0.3	1.5	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 31 March 2017.

Breakdown of Maturities by Remaining Term

Maturities[1)]

in € million	31.3.2017	31.12.2016
Assets		
Loans and advances to other banks	2,675	2,841
Repayable on demand	1,920	2,059
Up to 3 months	10	18
More than 3 months to 1 year	69	45
More than 1 year to 5 years	124	164
More than 5 years	552	555
Loans and advances to customers	40,974	41,146
Repayable on demand	1,012	1,023
Up to 3 months	1,842	1,167
More than 3 months to 1 year	2,808	2,860
More than 1 year to 5 years	17,872	18,067
More than 5 years	17,440	18,029
Financial investments	12,695	12,845
Unspecified terms	3	3
Up to 3 months	982	765
More than 3 months to 1 year	943	1,690
More than 1 year to 5 years	2,613	2,542
More than 5 years	8,154	7,845
Liabilities		
Liabilities to other banks	3,489	3,179
Repayable on demand	926	924
Up to 3 months	40	1,583
More than 3 months to 1 year	39	56
More than 1 year to 5 years	1,946	73
More than 5 years	538	543
Liabilities to customers	9,437	9,949
Repayable on demand	1,587	1,560
Up to 3 months	966	1,381
More than 3 months to 1 year	1,522	1,654
More than 1 year to 5 years	4,085	4,083
More than 5 years	1,277	1,271
Securitised liabilities	39,378	40,381
Up to 3 months	727	3,259
More than 3 months to 1 year	4,727	3,129
More than 1 year to 5 years	16,169	14,829
More than 5 years	17,755	19,164
Subordinated capital	998	886
Up to 3 months	383	54
More than 3 months to 1 year	10	361
More than 1 year to 5 years	256	246
More than 5 years	349	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.

Imprint

Deutsche Pfandbriefbank AG (publisher)
Freisinger Straße 5
85716 Unterschleißheim
Germany
T +49 (0)89 2880–0
F +49 (0)89 2880–10319
info@pfandbriefbank.com
www.pfandbriefbank.com