Quarterly Information
as of 30 September 2018

Deutsche Pfandbriefbank Group

DEUTSCHE
PFANDBRIEFBANK

This notice is a quarterly report of the Deutsche Pfandbriefbank Group ("pbb Group") in accordance with section 53 of the Exchange Rules (Börsenordnung) of the Frankfurt Stock Exchange. Unless stated otherwise, the following comments are based on (unaudited) consolidated 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 2017, also referred to as "9m2017" 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 2017).

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Business Performance
Key Figures

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9. 2018	1.1.–30.9. 2017
Operating performance according to IFRS			
Profit or loss before tax	in € million	171	154
Net income/loss	in € million	138	126
Key ratios		**1.1.–30.9. 2018**	**1.1.–30.9. 2017**
Earnings per share	in €	0.98	0.94
Cost-income ratio[1)]	in %	41.9	45.2
Return on equity before tax[2)]	in %	7.6	7.4
Return on equity after tax[2)]	in %	6.2	6.0
New business volume[3)]	in € billion	5.9	7.4
Balance sheet figures according to IFRS		**30.9.2018**	**31.12.2017**
Total assets	in € billion	57.3	58.0
Equity	in € billion	3.2	2.9
Financing volumes Real Estate Finance and Public Investment Finance	in € billion	32.3	31.9
Key regulatory capital ratios (fully phased-in)		**30.9.2018[4)]**	**31.12.2017[5)]**
CET1 ratio	in %	19.7	17.6
Own funds ratio	in %	26.7	22.2
Leverage ratio	in %	5.3	4.5
Staff		**30.9.2018**	**31.12.2017**
Employees (on full-time equivalent basis)		747	744
Long-term issuer rating/outlook[6)7)]		**30.9.2018**	**31.12.2017**
Standard & Poor's		A–/Negative	A–/Negative
DBRS		BBB/Positive	BBB/Stable
Moody's Pfandbrief rating[7)]		**30.9.2018**	**31.12.2017**
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

1) Cost-income ratio is the ratio of general and administrative expenses and net income from write-downs and write-ups on non-financial assets to operating income.
2) Return on equity before tax respectively after tax is the ratio of annualised profit or loss before tax (net income/loss) less AT1-coupon (after tax) and average equity excluding accumulated other conprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI (IAS 39: AfS reserve) and additional equity instruments (AT1).
3) Including prolongations with maturities of more than one year.
4) In consideration of the first quaters 2018 net profit less the maximum permissible dividend according to the ECB methodology.
5) After confirmation of the 2017 financial statements and appropriation of profits.
6) The ratings of unsecured liabilities may diverge from the Bank ratings.
7) The rating agencies may alter or withdraw their ratings at any time. Ratings of individual securities issued by 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 Deutsche Pfandbriefbank AG (pbb).

Development in Earnings

During the period under review (1 January to 30 September 2018 – referred to as "9m2018" below), pbb Group generated €171 million in profit before tax, a clear improvement from the €154 million generated in the same period of the previous year (1 January to 30 September 2017 – referred to as "9m2017" below). This was due in particular to the considerable increase in net interest income. In addition, results benefited from income – generated in the second quarter of 2018 – from the so-called conditional additional purchase price adjustment (Besserungsanspruch) in connection with accepting a buy-back offer made for Heta Asset Resolution AG ("Heta") debt securities. A detailed breakdown of the results is provided below:

Income and expenses

in € million	1.1.–30.9. 2018 (IFRS 9)	1.1.–30.9. 2017 (IAS 39)	Change
Operating income	351	336	15
Net interest income	334	298	36
Net fee and commission income	4	6	–2
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement)[1]	2	–4	6
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations)[1]	23	31	–8
Thereof: from financial assets at amortised cost	22	30	–8
Net income from hedge accounting	–1	–	–1
Net other operating income	–11	5	–16
Net income from allowances on financial assets (Net income from risk provisioning)[1]	–10	–3	–7
General and administrative expenses	–136	–141	5
Expenses from bank levies and similar dues	–23	–27	4
Net income from write-downs and write-ups on non-financial assets	–11	–11	–
Profit or loss before tax	**171**	**154**	**17**
Income taxes	–33	–28	–5
Net income/loss	**138**	**126**	**12**

[1] Solely the condensed and parenthesised line item descriptions are used subsequently.

Net interest income increased to €334 million (9m2017: €298 million). The increase was due to lower interest expenses, which reflected maturities of higher-yielding liabilities, amongst other things. As in the same period of the previous year, pbb Group profited from floors in client business, given the negative interest rate environment. At €32.3 billion, the average interest-bearing financing volumes in commercial Real Estate Finance and Public Investment Finance in the period under review exceeded the level of the previous year (9m2017: €31.8 billion), whereas the average volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy (€13.6 billion; 9m2017: €15.0 billion). The average margin of the total portfolio was stable, relative to the comparable period of the previous year.

Net fee and commission income from non-accruable fees amounted to €4 million (9m2017: €6 million).

Net income from fair value measurement – comprising changes in the fair value of derivatives as well as non-derivative financial instruments which must be measured at fair value – stood at €2 million (9m2017: €–4 million). Income resulted mainly from the measurement, and subsequent disposal, of the Heta conditional additional purchase price adjustment (Heta-Besserungsanspruch). Expenses of € 4 million were incurred in connection with the fair value measurement of a southern European security, the volatility of which increased throughout 2018. Furthermore, net income from fair value measurement was burdened by the "pull-to-par" effect in connection with fair values of derivatives.

Net income from realisations (€ 23 million; 9m2017: € 31 million) comprised early termination fees of €13 million (9m2017: € 21 million), fee realisations of € 9 million (9m2017: € 8 million), and redemption of liabilities of €1 million (9m2017: €1 million).

Net income from hedge accounting of € –1 million (9m2017: € 0 million) was due to ineffective portions from portfolio-hedge relationships. pbb Group exercised the option available under IFRS 9 and continued to apply the hedge accounting rules of IAS 39.

Net other operating income of € –11 million (9m2017: € 5 million) comprised expenses from net new provisions recognised mainly for legal expenses and risks of € 9 million (9m2017: €13 million) and currency translation expenses in the amount of € 2 million (9m2017: € 0 million). The result for the same period of the previous financial year benefited from income generated in connection with the sale of assets held in pbb's non-strategic Value Portfolio.

Net income from risk provisioning (€ –10 million; 9m2017: € –3 million) resulted mainly from net additions to stage 3 impairments in the amount of € 20 million. The net additions were caused by impairments of financings in the United Kingdom, in the shopping centres sub-market. These expenses were partly compensated by net reversals of stage 1 and 2 impairments in the amount of €10 million, which were due to holdings in the portfolio set to mature in the short term.

General and administrative expenses were reduced slightly, to €136 million (9m2017: €141 million). While non-personnel expenses were lower, thanks to the successful conclusion of projects, personnel expenses remained almost constant. In the course of 2018, general and administrative expenses increased, which was due to higher IT costs, amongst other things. The rise in IT costs was attributable to digitalisation projects, such as the introduction of an electronic platform for the intermediation of public loans (CAPVERIANT GmbH) or the implementation of regulatory requirements.

Expenses from bank levies and similar dues (€ 23 million; 9m2017: € 27 million) comprised mainly expenses for the bank levy, taking into account pledged collateral amounting to 15% (€ 20 million; 9m2017: €19 million). Furthermore, this line item comprised expenses of € 3 million (9m2017: € 6 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme. These expenses were lower than in the prior-year period, due to the change in the basis for calculation and the fact that pledged collateral of 30% was included for the first time.

Net income from write-downs and write-ups on non-financial assets (€ –11 million; 9m2017: € –11 million) resulted primarily from depreciation of property and equipment, and amortisation of intangible assets.

Income taxes (€ –33 million; 9m2017: € –28 million) resulted from an actual tax expense of € 31 million (9m2017: € 33 million) and a deferred tax expense in the amount of € 2 million (9m2017: tax income of € 5 million).

Development in Assets and Financial Position

DEVELOPMENT IN ASSETS

Assets

in € million	30.9.2018 (IFRS 9)	1.1.2018 (IFRS 9)	31.12.2017 (IAS 39)
Cash reserve	1,977	999	999
Financial assets at fair value through profit or loss	1,508	1,735	870
Positive fair values of stand-alone derivatives	719	870	870
Debt securities	317	333	–
Loans and advances to customers	469	529	–
Shares in investment funds qualified as debt instruments	3	3	–
Financial assets at fair value through other comprehensive income	2,013	2,182	2,385
Debt securities	1,583	1,735	2,382
Loans and advances to other banks	16	17	–
Loans and advances to customers	414	430	–
Shares in investment funds qualified as debt instruments	–	–	3
Financial assets at amortised cost after credit loss allowances	49,515	50,323	50,858
Financial assets at amortised cost before credit loss allowances	49,628	50,427	50,942
Debt securities	8,136	8,667	8,253
Loans and advances to other banks	2,258	2,400	2,415
Loans and advances to customers	39,234	39,360	40,274
Credit loss allowances on financial assets at amortised cost	–113	–104	–84
Positive fair values of hedge accounting derivatives	2,136	2,678	2,678
Valuation adjustment from porfolio hedge accounting (assets)	–	–1	–1
Tangible assets	5	6	6
Intangible assets	34	36	36
Other assets	31	34	34
Current income tax assets	42	42	42
Deferred income tax assets	83	71	87
Total assets	**57,344**	**58,105**	**57,994**

Total assets declined slightly compared to 1 January 2018 (including application of IFRS 9). The cash reserve increased during the reporting period, due to repayments of municipal loans and securities. In contrast, market-induced fair value adjustments in particular led to a decline in the market values of derivatives. In addition, financial assets measured at fair value through profit or loss declined due to maturities and placements.

At €32.3 billion, the aggregate nominal value of strategic financings, comprising Real Estate Finance and Public Investment Finance, exceeded the previous year-end figure (31 December 2017: €31.9 billion). The non-strategic Value Portfolio declined from €13.8 billion on 31 December 2017 to €13.4 billion, in line with the strategy.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.9.2018 (IFRS 9)	1.1.2018 (IFRS 9)	31.12.2017 (IAS 39)
Financial liabilities at fair value through profit or loss	898	1,040	956
Negative fair values of stand-alone derivatives	898	1,040	956
Financial liabilities measured at amortised cost	50,419	50,919	50,919
Liabilities to other banks	4,535	3,797	3,797
Liabilities to customers	24,304	26,244	26,244
Bearer bonds	20,876	19,876	19,876
Subordinated liabilities	704	1,002	1,002
Negative fair values of hedge accounting derivatives	2,437	2,805	2,889
Valuation adjustment from porfolio hedge accounting (liabilities)	3	–	–
Provisions	258	247	245
Other liabilities	47	70	70
Current income tax liabilities	59	57	57
Liabilities	**54,121**	**55,138**	**55,136**
Equity attributable to the shareholders of pbb	2,925	2,967	2,858
Subscribed capital	380	380	380
Additional paid-in capital	1,637	1,637	1,637
Retained earnings	760	722	731
Consolidated profit	138	182	182
Accumulated other comprehensive income (OCI)	10	46	–72
from pension commitments	–74	–75	–75
from cash flow hedge accounting	5	22	22
from financial assets at fair value through OCI (IAS 39: AfS reserve)	79	99	–19
Additional equity instruments (AT1 capital)	298	–	–
Equity	**3,223**	**2,967**	**2,858**
Total liabilities and equity	**57,344**	**58,105**	**57,994**

Liabilities

Liabilities decreased, especially due to lower liabilities to customers and negative fair values of derivatives. Liabilities to customers declined, reflecting a lower level of promissory note loans and registered bonds. In line with assets, the negative fair values of derivatives were lower due to market-induced effects. The volume of bearer bonds increased, given the Bank's Pfandbrief issuance.

Equity

As at 30 September 2018, equity stood at €3.2 billion (1 January 2018: €3.0 billion). Accumulated other comprehensive income from pension commitments increased by €1 million. This increase was due to the rise of the discount rate applied to measure defined benefit pension obligations, from 1.93% as at year-end 2017 to 2.08%, and to amended demographic assumptions. Due to the planned reduction of cash flow hedge reserves, and to the decline in reserves from financial assets at fair value through other comprehensive income accumulated other comprehensive income declined by a total of €37 million compared to 1 January 2018.

In June 2018, pbb distributed dividends of €144 million (or €1.07 per ordinary bearer share with no par value entitled to a dividend) to shareholders. The remaining consolidated profit of € 38 million was appropriated to retained earnings. Earnings per share stood at € 0.98 in the period under review (9m2017: € 0.94).

The additional equity instruments include Additional Tier 1 (AT1) capital in the total nominal amount of € 300 million, less transaction costs of € 2 million. The bond issued by pbb on 12 April 2018 carries an initial coupon of 5.75% p.a. and has no final maturity.

Funding

New long-term funding was raised in the amount of € 4.5 billion (9m2017: € 5.8 billion) during the period from 1 January to 30 September 2018. The total amount comprised unsecured issues as well as Pfandbrief issues, both in the form of benchmark issues and private placements. At € 2.9 billion (9m2017: € 3.2 billion), Pfandbriefe accounted for two thirds of the total volume, with unsecured funding accounting for €1.3 billion (9m2017: € 2.1 billion). Since the beginning of 2018, pbb has differentiated between “senior non-preferred” and “senior preferred” unsecured funding. Since the introduction of this differentiation, pbb Group issued a total volume of € 224 million in senior preferred structured or plain-vanilla private placements. pbb Group has not yet issued any senior preferred unsecured funding in the form of benchmark issues. Furthermore, additional tier 1 capital (AT1 capital) in the amount of € 0.3 billion was raised for the first time. € 0.5 billion in subordinated tier 2 liabilities was issued in the previous year’s period. The transactions were placed mainly 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 € 3.2 billion as at 30 September 2018 (31 December 2017: € 3.3 billion).

Liquidity

Since 1 January 2018, a minimum Liquidity Coverage Ratio (LCR) of currently 100% has been mandatory in regulatory liquidity reporting. The LCR figures for pbb Group during the period under review – and for the prior-year period – significantly exceeded 100%.

Off-balance-sheet Obligations

Irrevocable loan commitments of € 4.1 billion (31 December 2017: € 4.7 billion) represent the majority of off-balance sheet obligations. Contingent liabilities on guarantees and indemnity agreements amounted to € 0.1 billion as at 30 September 2018 (31 December 2017: € 0.1 billion).

Segment Reporting

Income/expenses

in € million		REF	PIF	VP	C&A	pbb Group
Operating income	1.1.–30.9.2018	290	23	34	4	**351**
	1.1.–30.9.2017[1]	273	21	38	4	**336**
Net interest income	1.1.–30.9.2018	276	26	28	4	**334**
	1.1.–30.9.2017[1]	247	22	25	4	**298**
Net fee and commission income	1.1.–30.9.2018	5	–	–1	–	**4**
	1.1.–30.9.2017[1]	7	–	–1	–	**6**
Net income from fair value measurement	1.1.–30.9.2018	–5	–2	9	–	**2**
	1.1.–30.9.2017[1]	–	–1	–3	–	**–4**
Net income from realisations	1.1.–30.9.2018	23	–	–	–	**23**
	1.1.–30.9.2017[1]	30	–	1	–	**31**
Net income from hedge accounting	1.1.–30.9.2018	–1	–	–	–	**–1**
	1.1.–30.9.2017[1]	–	–	–	–	**–**
Net other operating income	1.1.–30.9.2018	–8	–1	–2	–	**–11**
	1.1.–30.9.2017[1]	–11	–	16	–	**5**
Net income from risk provisioning	1.1.–30.9.2018	–18	4	4	–	**–10**
	1.1.–30.9.2017[1]	–4	–1	2	–	**–3**
General and administrative expenses	1.1.–30.9.2018	–108	–19	–9	–	**–136**
	1.1.–30.9.2017[1]	–112	–19	–10	–	**–141**
Expenses from bank levies and similar dues	1.1.–30.9.2018	–13	–3	–7	–	**–23**
	1.1.–30.9.2017[1]	–14	–4	–9	–	**–27**
Net income from write downs and write ups on non-financial assets	1.1.–30.9.2018	–9	–1	–1	–	**–11**
	1.1.–30.9.2017[1]	–10	–1	–	–	**–11**
Profit or loss before tax	1.1.–30.9.2018	**142**	**4**	**21**	**4**	**171**
	1.1.–30.9.2017[1]	**133**	**–4**	**21**	**4**	**154**

[1] Adjusted due to IFRS 8.29.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes[1]	30.9.2018	25.7	6.6	13.4	–	**45.7**
	31.12.2017	24.9	7.0	13.8	–	**45.7**
Risik-weighted assets[2]	30.9.2018	7.6	1.3	3.8	0.8	**13.5**
	31.12.2017	8.3	1.6	3.5	1.1	**14.5**
Equity[3]	30.9.2018	1.4	0.1	1.0	0.3	**2.8**
	31.12.2017[4]	1.2	0.2	1.1	0.4	**2.9**

[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 accumulated other conprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI (IAS 39: AfS reserve) and AT1 capital.
[4] Adjusted due to IFRS 8.29.

Effective 1 January 2018, pbb Group changed the structure of its internal organisation in such a way that the amount of profit before tax as well as the amount of allocated equity of reportable segments changed. These changes relate to the allocation of costs for holding liquidity (reported in net interest income), prepayment penalties (reported in gains or losses from derecognition of financial instruments not measured at fair value through profit or loss) and equity to the business segments, and thus also of income from investing own funds (in net interest income). pbb Group has adjusted the segmentation of income and expenses for the comparable prior-year period, and of equity as of 31 December 2017, in accordance with IFRS 8.29. As a result of the changes, profit before tax in the REF segment rose, whilst profit before tax in the PIF and VP segments decreased. As a result of the changed allocation of equity, a higher amount was allocated to the REF segment in particular.

Report on Post-balance Sheet Date Events

No material events occurred after 30 September 2018.

Report on Changes in Expected Developments

Given that stable development is anticipated during the fourth quarter 2018, pbb again raised its forecast for the full year 2018, to pre-tax profit of between € 205 million and € 215 million.

Breakdown of Maturities by Remaining Term

Maturities[1)] as of 30 September 2018 (IFRS 9)

in € million	repayble on demand/not specified	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
Assets	**3,598**	**2,290**	**4,412**	**21,516**	**22,591**	**54,407**
Cash reserve	1,977	–	–	–	–	1,977
Measured at fair value through profit or loss (excluding derivatives)	3	81	134	136	435	789
Debt securities	–	65	134	–	118	317
Loans and advances to customers	–	16	–	136	317	469
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Measured at fair value through other comprehensive income	–	58	60	1,144	751	2,013
Debt securities	–	46	27	854	656	1,583
Loans and advances to other banks	–	–	–	16	–	16
Loans and advances to customers	–	12	33	274	95	414
Measured at amortised cost before credit loss allowances	1,618	2,151	4,218	20,236	21,405	49,628
Debt securities	–	244	475	2,407	5,010	8,136
Loans and advances to other banks	1,593	113	–	–	552	2,258
Loans and advances to customers	25	1,794	3,743	17,829	15,843	39,234
Liabilities	**2,084**	**2,127**	**5,988**	**21,020**	**19,200**	**50,419**
Measured at amortised cost	2,084	2,127	5,988	21,020	19,200	50,419
Liabilities to other banks	819	792	60	2,182	682	4,535
Thereof: Registred bonds	–	32	41	131	346	550
Liabilities to customers	1,250	898	2,012	6,083	14,061	24,304
Thereof: Registred bonds	–	372	525	2,944	13,156	16,997
Bearer bonds	15	426	3,911	12,689	3,835	20,876
Subordinated liabilities	–	11	5	66	622	704

[1)] Excluding: positive/negative fair values of stand-alone derivatives and hedge accounting derivatives, credit loss allowances on financial assets at amortised cost, valuation adjustment from porfolio hedge accounting (assets/liabilities), tangible assets, intangible assets, provisions, other assets/liabilities, income tax assets/liabilities and equity.

Maturities[1] as of 31 December 2017 (IAS 39)

in € million	Repayable on demand/ unspecified terms	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years	Total
Assets	**3,889**	**1,680**	**3,106**	**20,073**	**25,565**	**54,313**
Cash reserve	999	–	–	–	–	999
Measured at fair value through profit or loss (excluding derivatives)	–	–	–	–	–	–
Measured at fair value through other comprehensive income	3	44	51	423	1,864	2,385
Debt securities	–	44	51	423	1,864	2,382
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Measured at amortised cost before credit loss allowances	2,887	1,636	3,055	19,650	23,701	50,929
Debt securities[2]	–	144	489	2,264	5,343	8,240
Loans and advances to other banks	1,709	45	104	15	542	2,415
Loans and advances to customers	1,178	1,447	2,462	17,371	17,816	40,274
Liabilities	**2,386**	**3,145**	**3,443**	**22,506**	**19,439**	**50,919**
Measured at amortised cost	2,386	3,145	3,443	22,506	19,439	50,919
Liabilities to other banks	991	42	81	2,056	627	3,797
Thereof: Registred bonds	–	23	76	107	311	517
Liabilities to customers	1,395	1,076	2,312	6,920	14,541	26,244
Thereof: Registred bonds	–	374	956	3,169	13,470	17,969
Bearer bonds	–	1,901	868	13,459	3,648	19,876
Subordinated liabilities	–	126	182	71	623	1,002

[1] Excluding: positive/negative fair values of stand-alone derivatives and hedge accounting derivatives, credit loss allowances on financial assets at amortised cost, valuation adjustment from porfolio hedge accounting (assets/liabilities), tangible assets, intangible assets, provisions, other assets/liabilities, income tax assets/liabilities and equity.

[2] Less portfolio-based allowances according to IAS 39.

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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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