Quarterly Information

as of 30 September 2019

Deutsche Pfandbriefbank Group

Contents

Business Performance

Key Figures

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9.2019	1.1.–30.9.2018
Operating performance according to IFRS			
Profit before tax	in € million	187	171
Net income	in € million	155	138
Key ratios		**1.1.–30.9.2019**	**1.1.–30.9.2018**
Earnings per share	in €	1.06	0.98
Cost-income ratio[1]	in %	41.5	41.9
Return on equity before tax[2]	in %	8.1	7.6
Return on equity after tax[2]	in %	6.6	6.2
New business volume Real Estate Finance[3]	in € billion	6.9	5.4
Balance sheet figures according to IFRS		**30.9.2019**	**31.12.2018**
Total assets	in € billion	59.8	57.8
Equity	in € billion	3.2	3.3
Financing volumes Real Estate Finance	in € billion	27.7	26.8
Key regulatory capital ratios[4]		**30.9.2019**	**31.12.2018**
CET1 ratio	in %	18.3	18.5
Own funds ratio	in %	24.8	24.9
Leverage ratio	in %	5.1	5.3
Staff		**30.9.2019**	**31.12.2018**
Employees (on full-time equivalent basis)		750	750
Long-term issuer rating/outlook[5][6]		**30.9.2019**	**31.12.2018**
Standard & Poor's		A-/Negativ	A-/Negativ
Moody's Pfandbrief rating[6]		**30.9.2019**	**31.12.2018**
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 before tax (net income) less AT1-coupon and average equity (excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital).
[3] Including prolongations with maturities of more than one year.
[4] Values as of 31 December 2018 after confirmation of the 2018 financial statements and appropriation of profits as well as fully phased-in.
[5] The ratings of unsecured liabilities may diverge from the issuer ratings.
[6] 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).

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 2018, also referred to as "9m2018" 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 2018).

Development in Earnings

During the period under review (1 January to 30 September 2019 – referred to as "9m2019" below), pbb generated €187 million in profit before tax, thereby exceeding the previous year's figure of €171 million (1 January to 30 September 2018 – referred to as "9m2018"). This was due to a further increase in the Group's most important source of income, net interest income, as well as an increase in early termination fees included in net income from realisations and other operating income. These increases more than compensated for a modest increase in general and administrative expenses. A detailed breakdown of the results is provided below:

Income and expenses

in € million	**1.1.–30.9. 2019**	**1.1.–30.9. 2018**	Change
Operating income	371	350	21
Net interest income	341	334	7
Net fee and commission income	4	4	-
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement)[1]	-2	2	-4
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations)[1]	31	23	8
Thereof: from financial assets at amortised cost	32	22	10
Net income from hedge accounting	-3	-1	-2
Net other operating income[2]	-	-12	12
Net income from allowances on financial assets (Net income from risk provisioning)[1][2]	-10	-9	-1
General and administrative expenses	-141	-136	-5
Expenses from bank levies and similar dues	-23	-23	-
Net income from write-downs and write-ups on non-financial assets	-13	-11	-2
Net income from restructuring	3	-	3
Profit or loss before tax	**187**	**171**	**16**
Income taxes	-32	-33	1
Net income/loss	**155**	**138**	**17**
attributable to: Shareholders	155	138	17

[1] Solely the condensed and parenthesised line item descriptions are used subsequently.
[2] In the period under review, net income from provisions in off-balance sheet lending business were reclassified from "net other operating income" to the "net income from risk provisioning". The presentation of the previous year's results was adjusted accordingly.

Net interest income rose to €341 million (9m2018: €334 million). This increase was driven on the one hand by a higher average volume of commercial real estate loans (€27.5 billion; 9m2018: €25.5 billion), albeit with lower average margins on new business, and on the other hand by lower funding expenses. The latter item decreased due to maturing liabilities being replaced at lower interest rates. As in the same period of the previous year, pbb Group benefited from income from floors in client business, owing to the increasingly negative interest rate environment.

Net fee and commission income from non-accruable fees of €4 million was unchanged year-on-year (9m2018: €4 million).

Net income from fair value measurement totalled €–2 million (9m2018: €2 million). Expenses of €13 million from the pull-to-par effect, largely attributable to derivatives, were offset in particular by increases in the value of non-derivative financial instruments of €11 million. During the same period of the previous year, pbb Group benefited from a valuation gain from a conditional additional purchase price adjustment in connection with Heta Asset Resolution AG debt securities (Heta-Besserungsanspruch).

At €31 million, net income from realisations exceeded the level of the previous year (9m2018: €23 million). This increase was due to higher early termination fees, which amounted to €27 million in the period under review (9m2018: €14 million). Additionally this position comprises income of €6 million

(9m2018: €9 million) from realisation of accrued fees due to derecognition of financial instruments. In contrast, expenses totalling €1 million resulted from the redemption of liabilities (9m2018: income of €2 million).

Net income from hedge accounting amounted to €–3 million (9m2018: €–1 million). Hedges were largely efficient thanks to close monitoring and management of interest rate risk.

In net other operating income (€0 million; 9m2018: €–12 million) earnings, inter alia, from non-income tax refunds were compensated by currency translation expenses. In the same period of the previous year net additions to provisions of €9 million were incurred mainly to cover legal expenses and risks.

Net additions to loan loss provisions amounted to €10 million (9m2018: €9 million). Additions to stage 3 impairments related to financings of shopping centres in the UK (€15 million; 9m2018: €20 million). Net reversals from stage 1 and 2 impairments amounted to €6 million (9m2018: €10 million).

General and administrative expenses of €141 million were slightly above the same period of the previous year (€136 million). This was due to non-personnel expenses, which rose, inter alia, due to the costs of implementing new regulatory requirements.

Expenses for bank levies and similar dues (€23 million; 9m2018: €23 million) mainly comprised expenses for bank levies, taking into account pledged collateral amounting to 15% (€20 million; 9m2018: €20 million). Furthermore, this line item comprised expenses of €3 million (9m2018: €3 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups of non-financial assets (€–13 million; 9m2018: €–11 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The year-on-year increase resulted from write-downs on rights of use under leases, to be reported in accordance with IFRS 16. In the reporting period IFRS 16 was applied with a modified retrospective effect, based on the transitional provisions as defined in the standard. Figures for the same period of the previous year remain unchanged.

Net income from restructuring (€3 million; 9m2018: €0 million) included income from the reversal of provisions related to human resources.

Income taxes of €–32 million (9m2018: €–33 million) comprised a current tax expense of €12 million (9m2018: €31 million) and deferred tax expense of €20 million (9m2018: €2 million). Changes to current and deferred tax items have largely been caused by the tax authorities' amendments to the treatment of a large-volume, multi-year transaction.

Profit after tax amounted to €155 million (9m2018: €138 million), of which €142 million (9m2018: €132 million) was attributable to ordinary shareholders and €13 million (9m2018: €6 million) to AT1 investors.

Development in Assets and Financial Position

DEVELOPMENT IN ASSETS

Assets

in € million	30.9.2019	31.12.2018	Change
Cash reserve	1,828	1,388	440
Financial assets at fair value through profit or loss	1,505	1,659	-154
Positive fair values of stand-alone derivatives	774	749	25
Debt securities	135	258	-123
Loans and advances to customers	593	649	-56
Shares in investment funds qualified as debt instruments	3	3	-
Financial assets at fair value through other comprehensive income	1,807	1,984	-177
Debt securities	1,423	1,564	-141
Loans and advances to other banks	15	16	-1
Loans and advances to customers	369	404	-35
Financial assets at amortised cost after credit loss allowances	51,691	50,341	1,350
Financial assets at amortised cost before credit loss allowances	51,786	50,453	1,333
Debt securities	7,899	8,039	-140
Loans and advances to other banks	2,645	2,231	414
Loans and advances to customers	41,242	40,183	1,059
Credit loss allowances on financial assets at amortised cost	-95	-112	17
Positive fair values of hedge accounting derivatives	2,739	2,207	532
Valuation adjustment from portfolio hedge accounting (assets)	28	2	26
Tangible assets	37	4	33
Intangible assets	38	37	1
Other assets	42	35	7
Current income tax assets	24	26	-2
Deferred income tax assets	84	86	-2
Total assets	**59,823**	**57,769**	**2,054**

Total assets increased by €2.1 billion in the period under review, driven in particular by the increase in the nominal volume of commercial real estate financing to €27.7 billion (31 December 2018: €26.8 billion). Funding activities and repayments of other assets led to an increase of €0.4 billion in the cash reserve. A lower level of interest rates led to an increase in the market value of hedging derivatives. Tangible assets increased due to the activation of the right of use for pbb's newly occupied, leased corporate headquarters in Garching.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.9.2019	31.12.2018	Change
Financial liabilities at fair value through profit or loss	984	881	103
Negative fair values of stand-alone derivatives	984	881	103
Financial liabilities measured at amortised cost	52,026	50,714	1,312
Liabilities to other banks	4,319	3,867	452
Liabilities to customers	25,155	24,901	254
Bearer bonds	21,853	21,237	616
Subordinated liabilities	699	709	-10
Negative fair values of hedge accounting derivatives	3,037	2,538	499
Valuation adjustment from portfolio hedge accounting (liabilities)	138	23	115
Provisions	307	268	39
Other liabilities	66	40	26
Current income tax liabilities	52	48	4
Liabilities	**56,610**	**54,512**	**2,098**
Equity attributable to the shareholders of pbb	2,915	2,959	-44
Subscribed capital	380	380	-
Additional paid-in capital	1,637	1,637	-
Retained earnings[1]	942	939	3
Accumulated other comprehensive income	-44	3	-47
from pension commitments	-111	-73	-38
from cash flow hedge accounting	-11	-	-11
from financial assets at fair value through OCI	78	76	2
Additional equity instruments (AT1)	298	298	-
Equity	**3,213**	**3,257**	**-44**
Total equity and liabilities	**59,823**	**57,769**	**2,054**

[1] In line with IAS 8.14 pbb Group has consolidated the former line items “consolidated profit” and “retained earnings” into “retained earnings”.

Liabilities

Financial liabilities at amortised cost rose in particular due to funding activities. The increase in liabilities to banks was partly due to short-term funding, in the form of repurchase agreements. Liabilities to customers rose in particular due to higher accounting adjustments to micro hedges, as a result of lower interest rates. The increase in bearer bonds was mainly as a result of issues made during the period under review, which more than offset maturing bonds. Lower interest rates also led to higher micro-hedge accounting adjustments for bearer bonds. In line with the effect on the assets side, the lower interest rate level led to an increase in the market values of hedging derivatives. Provisions for pensions increased further as a result of changes in actuarial valuation parameters, such as the lower discount rate.

Equity

Equity decreased to €3.2 billion as at 30 September 2019 (31 December 2018: €3.3 billion), €38 million of which resulted from accumulated other comprehensive income from pension obligations, due to a decline in the discounting rate (from 2.02% to 0.93%) and a higher rate of increase for measurement of defined-benefit pension obligations (from 1.50% to 1.75%). Items that may be reclassified to profit or loss at a future point in time, such as gains and losses from cash flow hedge accounting and financial assets at fair value through other comprehensive income, had a €9 million negative impact on equity.

Funding

During the period from 1 January to 30 September 2019, pbb Group raised new long-term funding volume of €5.5 billion (9m2018: €4.5 billion). Repurchases and terminations totalled €0.5 billion. The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. At €2.5 billion (9m2018: €2.9 billion) Pfandbrief issues accounted for just under half of the volume.

Unsecured funding accounted for €3.0 billion (9m2018: €1.3 billion), with almost all of the volume being issued as senior preferred bonds (9m2018: €0.4 billion). A further €0.3 billion in additional equity (AT1 capital) was issued in the same period of the previous year. The transactions were placed mainly as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. In order to minimise foreign currency risk between assets and liabilities, Pfandbriefe were also issued in SEK (equivalent to €0.4 billion) and USD (equivalent to €0.6 billion).

Liquidity

Since 1 January 2018, a minimum liquidity coverage ratio (LCR) of 100% has been mandatory in regulatory liquidity reporting. As at 30 September 2019, the liquidity coverage ratio was 219% (31 December 2018: 212%).

Off-balance Sheet Commitments

Irrevocable loan commitments of € 4.7 billion (31 December 2018: € 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 2019 (31 December 2018: € 0.1 billion).

Segment Reporting

Income/expenses

in € million		Real Estate Finance (REF)	Public Investment Finance (PIF)	Value Portfolio (VP)	Consolidation & Adjustments (C&A)	**pbb Group**
Operating income	2019	316	26	25	4	371
	2018	289	23	34	4	350
Net interest income	2019	287	26	24	4	341
	2018	276	26	28	4	334
Net fee and commission income	2019	5	-	-1	-	4
	2018	5	-	-1	-	4
Net income from fair value measurement	2019	-5	-1	4	-	-2
	2018	-5	-2	9	-	2
Net income from realisations	2019	31	1	-1	-	31
	2018	23	-	-	-	23
Net income from hedge accounting	2019	-2	-	-1	-	-3
	2018	-1	-	-	-	-1
Net other operating income	2019	-	-	-	-	-
	2018 [1]	-9	-1	-2	-	-12
Net income from risk provisioning	2019	-15	-	5	-	-10
	2018 [1]	-17	4	4	-	-9
General and administrative expenses	2019	-115	-17	-9	-	-141
	2018	-108	-19	-9	-	-136
Expenses from bank levies and similar dues	2019	-14	-3	-6	-	-23
	2018	-13	-3	-7	-	-23
Net income from write-downs and write-ups of non-financial assets	2019	-10	-2	-1	-	-13
	2018	-9	-1	-1	-	-11
Net income from restructuring	2019	3	-	-	-	3
	2018	-	-	-	-	-
Profit before tax	**2019**	**165**	**4**	**14**	**4**	**187**
	2018	**142**	**4**	**21**	**4**	**171**

[1] In the period under review, net income from provisions in off-balance sheet lending business were reclassified from "net other operating income" to the "net income from risk provisioning". The presentation of the previous year's results was adjusted accordingly.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	**pbb Group**
Financing volumes[1]	30.9.2019	27.7	6.3	12.3	-	**46.3**
	31.12.2018	26.8	6.4	13.2	-	**46.4**
Risik-weighted assets[2]	30.9.2019	8.6	1.4	3.6	0.7	**14.3**
	31.12.2018	8.3	1.4	4.0	0.9	**14.6**
Equity[3]	30.9.2019	1.4	0.1	0.8	0.5	**2.8**
	31.12.2018	1.4	0.1	1.1	0.3	**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 comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital.

Report on Post-balance Sheet Date Events

There were no significant events after 30 September 2019.

Report on Changes in Expected Developments

Against the background of a sound performance during the reporting period and in particular with a view to the final quarter, pbb again raised its forecast for the full year 2019, to pre-tax profit of between € 205 million and € 215 million.

Breakdown of Maturities by Remaining Term

Maturities of specific financial assets and liabilities (excluding derivatives)

						30.9.2019
in € million	not specified/ repayavle on demand	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**
Cash reserve	1,828	–	–	–	–	1,828
Financial assets at fair value through profit or loss	3	59	2	167	500	731
Debt securities	–	–	–	–	135	135
Loans and advances to customers	–	59	2	167	365	593
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through pother comprehensive income	–	107	110	1,105	485	1,807
Debt securities	–	95	62	821	445	1,423
Loans and advances to other banks	–	–	15	–	–	15
Loans and advances to customers	–	12	33	284	40	369
Financial assets at amortised cost before credit loss allowances	2,133	2,134	4,121	21,352	22,046	51,786
Debt securities	–	123	259	2,483	5,034	7,899
Loans and advances to other banks	2,041	–	–	48	556	2,645
Loans and advances to customers	92	2,011	3,862	18,821	16,456	41,242
Total financial assets	**3,964**	**2,300**	**4,233**	**22,624**	**23,031**	**56,152**
Financial liabilities at cost	2,612	3,773	5,444	20,393	19,804	52,026
Liabilities to other banks	1,171	90	49	2,266	743	4,319
Thereof: Registred bonds	–	28	25	185	469	707
Liabilities to customers	1,427	1,578	1,861	5,608	14,681	25,155
Thereof: Registred bonds	–	401	640	2,777	13,860	17,678
Bearer bonds	14	2,094	3,532	12,419	3,794	21,853
Subordinated liabilities	–	11	2	100	586	699
Total financial liabilities	**2,612**	**3,773**	**5,444**	**20,393**	**19,804**	**52,026**

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	not specified/ repayavle on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	**31.12.2018** Total
Cash reserve	1,388	–	–	–	–	1,388
Financial assets at fair value through profit or loss	3	142	64	221	480	910
Debt securities	–	138	–	–	120	258
Loans and advances to customers	–	4	64	221	360	649
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through pother comprehensive income	–	40	129	1,090	725	1,984
Debt securities	–	30	100	776	658	1,564
Loans and advances to other banks	–	–	–	16	–	16
Loans and advances to customers	–	10	29	298	67	404
Financial assets at amortised cost before credit loss allowances	1,715	1,567	4,717	21,036	21,418	50,453
Debt securities	–	143	461	2,469	4,966	8,039
Loans and advances to other banks	1,687	–	–	–	544	2,231
Loans and advances to customers	28	1,424	4,256	18,567	15,908	40,183
Total financial assets	**3,106**	**1,749**	**4,910**	**22,347**	**22,623**	**54,735**
Financial liabilities at cost	2,193	2,552	7,174	19,485	19,310	50,714
Liabilities to other banks	899	34	88	2,175	671	3,867
Thereof: Registred bonds	–	30	57	109	345	541
Liabilities to customers	1,280	1,035	2,536	5,846	14,204	24,901
Thereof: Registred bonds	–	382	567	2,868	13,354	17,171
Bearer bonds	14	1,461	4,550	11,399	3,813	21,237
Subordinated liabilities	–	22	–	65	622	709
Total financial liabilities	**2,193**	**2,552**	**7,174**	**19,485**	**19,310**	**50,714**

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 activities, 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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